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# **East Europe Report**

**ECONOMIC AND INDUSTRIAL AFFAIRS**

**No. 2140**



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## NEW FINANCIAL DIRECTIVES DISCUSSED

Prague PLANOVAKE HOSPODARSTVI in Czech No 4, 1981 p 29-32

[Article by Ing Stanislav Soucek, Federal Finance Ministry: "New Financial Regulations"]

[Text] Part of the first stage in the implementation of the Set of Measures for Improving the Planned Management System of the National Economy After 1980 has been the issuance of new legal regulations valid as of 1 January 1981. Several of these are fundamental, namely:

--CSSR Government Ordinance 161/1980, Laws of the Czechoslovak Socialist Republic, concerning the financial management of economic production units and enterprises;

--Decree 162/1980 of the Federal Finance Ministry and the Czechoslovak State Bank, Laws of the Czechoslovak Socialist Republic, concerning the financing of the replacement of capital assets;

--Decree 161/1980 of the Federal Finance Ministry, Laws of the Czechoslovak Socialist Republic, concerning the financing of noncapital expenditures for scientific and technical development;

--Decree 134/1980 of the Federal Finance Ministry, Laws of the Czechoslovak Socialist Republic, concerning the financing of working capital;

--Decree 165/1980 of the Federal Finance Ministry and the Central Council of Trade Unions, Laws of the Czechoslovak Socialist Republic, concerning cultural and social services funds.

The common characteristic of these fundamental financial regulations is a strengthening of *khosraschet* elements in the financial management system of economic production units [VNI] and enterprises, and an overall increase in the effectiveness of the influence of this system on efficiency and quality.

The increased efficiency of the financial instruments embodied in the new financial regulations must appear both in the plan and in reality. This implies an increasingly active role for the financial plan in influencing the management efficiency of every VNI and enterprise. For this reason, the new principles of financial management have been fully integrated into the methodological directives for the compilation of financial plans as well as the state budget. In this way, the most efficient

realization of an active role for finance is assured at the stage of plan formulation, and the regulations, of course, fix the principles and instruments which are operative during plan implementation. It is obvious that the development of khosraschet and an increased role for finance and its instruments is realized on the basis of the plan, and that khosraschet and finance both have an effect on the efficient implementation of plan targets, at the same time that the reverse tie between khosraschet and the plan also has an influence on plan formulation, from the viewpoint of assuring an increase in efficiency.

The fundamental measures for increasing the efficiency of financial management system of VMLJ and enterprises is embodied in a new CSER government ordinance concerning the financial management of VMLJ and enterprises (No 161/1980, Laws of the Czechoslovak Socialist Republic). This ordinance includes the following basic measures:

- a strengthening of the khosraschet character of the system for financing needs in the enterprise management sphere and, in connection with this, an increased role for the in-house financial resources of the VMLJ and enterprises, particularly profits;
- increased efficiency of VMLJ and enterprise budgetary funds;
- increased tasks, accountability, and jurisdiction for VMLJ in financial management, and a new organization of financial relations between the VMLJ and the enterprises within it;
- a resolution of the specific conditions of financial management in certain sectors.

Taken as a whole, the modifications in the financial management system of VMLJ and enterprises constitutes one of the significant bases for the further development and more efficient operation of khosraschet at VMLJ and enterprises.

#### Strengthening Khosraschet Character of Financial Management System

The basic khosraschet element in the financial management system of VMLJ and enterprises is the increased accountability and jurisdiction of the VMLJ and its independence in financial resource management, especially in the creation of profits. On the one hand, the Set of Measures has provided for an increased role for profits in financing the needs of the VMLJ and this increased self-financing of requirements will serve to intensify its interest in the creation of profits. This is aided in a number of ways by the new modifications in financial management:

- surpluses after profit distributions, i.e., above-plan surpluses, or unutilized profits (i.e., profits available after transfers to the state budget, after the financing of requirements, and the coverage of any additional expenses) remain with the VMLJ at the end of the year and are deposited in its reserve fund (unused profits from enterprises accrue to the VMLJ, unless the latter decides that they are to remain at the disposal of the enterprise);
- allocation of profits to the material incentives fund may take place, after meeting established conditioning indicators, only on the condition that the VMLJ (or the enterprise) has the requisite amount of profits at its disposition;

--the binding order of VNU (and enterprise) profit utilization has been changed so that, in contrast to the current situation, profits may be used for distributions to funds assuring the financing of planned needs (construction fund, revolving fund), and only then for distribution to material incentives funds, provided that transfers to the state budget have been carried out first (and in the case of enterprises, after carrying out transfers both to the state budget and to the supervisory VNU; this serves to emphasize the *khosraschet* accountability of the VNU (and enterprises) for the financing of planned needs;

--the redistribution of profits among VNU within the framework of a central sectoral agency will occur only exceptionally, and only on the basis of the assent of the relevant finance ministry; in this way as well the accountability and independence of the VNU in managing its usable profits is emphasized; the redistribution of part of the writeoffs of capital assets among VNU is under the jurisdiction of the central sectoral agency according to the conditions established by legal regulations.

The above principles increase the significance of usable (disposable) profits to every VNU and enterprise, which is the basic path to increasing their interest not only in profit generation and their most effective expenditure on planned needs, but also in a reduction in the areas which disposable profits are used to moderate, such as shortages, damages, fines, penalties, supplementary transfers, payments credited to the basic transfer from profits, and the like. This is an important positive aspect of the new modifications in financial management.

The most important measure strengthening the influence of profits and *khosraschet* elements in VNU and enterprise management is the increased share of in-house financial resources, above all profits, to be used by the VNU and enterprises to finance their requirements. This implies greater responsibility at the VNU and enterprise level for the comprehensive assurance of planned requirements, including financial assurance.

Another aspect of this measure is a reduction in the amount of subsidies from the state budget, especially for investment. Subsidies from the state budget will be provided only in instances defined in principles approved by the CSER government. We are moving, therefore, to a reduction in the extent of profit redistribution through the state budget to *khosraschet* forms of financing. There has been a similar development in other socialist countries in recent years.

Increasing the percentage of VNU and enterprise profits used to finance their own needs implies a certain reduction in transfers from profits to the state budget. Therefore, it is expected that there will be a new rate for profit transfers established by law. This modification will require a certain amount of preparation and it is expected to become operative as of 1 January 1983. So that the *khosraschet* forms of financing can be applied from the beginning of the Seventh Five-Year Plan, reductions in the necessary amount of profit transfers will be granted to VNU in 1981 and 1982 (that is until the modification of the law concerning transfers to the state budget). These reductions have already been incorporated into the state budget for 1981.



According to rough calculations, the amount of 1981 profits remaining at the disposition of VNU and enterprises in selected industrial sectors for the financing of their requirements will be about 12 to 15 percent higher than in 1980.

This increase in the "self-financing" of VNU and enterprises, in addition to the above-mentioned new principles of financial management combine to increase their economic interest in management performance and accountability as a basis for strengthening the efficiency of finance and khozraschet in influencing efficiency and quality.

#### Increasing Effectiveness of VNU and Enterprise Financial Funds

Financial funds are important financial and khozraschet instruments. They have been applied in practice in this country for a number of years now and have proven themselves overall. These funds call attention to the planned character, goal orientation, conscientiousness, as well as the long-range nature of financial management. They also function as an effective instrument of material incentives. In the improved financial management system, as modified by the new financial regulations of 1 January 1981, the effectiveness of the financial funds is further increased, both by the above-mentioned new elements in VNU and enterprise financial management, and by modifications in the system of funds itself. Certain funds have been reorganized, while the majority, which we are familiar with already, have been made more efficient.

The following funds have been organized, generally at the VNU level according to the USSR government ordinance concerning VNU and enterprise financial management:

#### Funds Assuring the Financing of Requirements:

Construction fund: for financing some investments (all projects with over Mcs 2 million in budgeted costs). It is formed from established resources according to a financial plan (this fund existed earlier).

Revolving Fund: to finance working capital. Increases are covered by established percentages of profits (also existed earlier).

Technical Development Fund: to finance noncapital expenditures for scientific and technical development. It is formed from costs. It has existed previously, but its magnitude and significance is increased.

Reserve Fund: formed from profit distributions (a percentage established by the plan) and from other resources and profits remaining with the VNU at the end of the year; it has existed previously, but its usability will increase substantially, as well as its extent and significance.

Risk Fund: created by certain, especially trade, organizations;

Special Purpose Funds: formed from costs; e.g., geological project fund, damage and replacement fund.

Additional funds may also be created according to an established approach.

#### Material Incentive Funds:

Cultural and Social Services Fund: it has existed previously, but its efficiency is being significantly increased;

Development Fund: newly organized; serves to finance a part of VMLJ investments (projects under Kcs 2 million, and machinery and equipment not included in the budget for a building project) financed from the in-house financial resources of the VMLJ;

Fund for Material Incentives for Exports: newly created, and only at the VMLJ level; serves to provide material incentives for efficient exports according to a particular scale and under established conditions;

Compensation Fund: it has existed previously, but now its volume and importance are changing (basically lowered) in connection with new rules for the directing of the development of wage resources.

This comprehensive system of funds is created by the VMLJ according to the legal regulations. The enterprises within the VMLJ form funds according to its decisions. However, according to the legal regulations there must always be material incentive funds organized in enterprises, at the same time that the legal regulation establishes the conditions for the creation of cultural and social services funds for both the VMLJ and its enterprises.

#### Standing and Task of VMLJ in Financial Management

In connection with the gradual building of the VMLJ as the basic management link in the enterprise management sphere, and with the development of VMLJ *khosraschet*, there has been an increase in the accountability and jurisdiction of the VMLJ in financial management. It has become the subject of relationships to the state budget, to the bank, it has a comprehensive financial management system and the necessary jurisdiction to manage the financial management of enterprises within the VMLJ.

This new element in the VMLJ financial management system, which is the tie of the whole VMLJ to *khosraschet*, is fully justified by the requisite development of integration of the production technical base into larger units which correspond to current needs. It is designed to increase the effectiveness of the influence of financial management on the management efficiency of the VMLJ as a whole and on its constituent enterprises. In this regard, great significance is attached to the organization of their internal financial relations, the so-called financial management of individual enterprises, and especially the organization of the financial ties between the VMLJ and its enterprises. This organization is a component of internal *khosraschet* relations, which have a decisive importance for the efficiency of *khosraschet* within the VMLJ.

The new financial regulations related to the above considerations are based on the fact that there must be a certain and sufficiently effective system of financial management of the enterprises within the VMLJ. The main principles of financial management are contained directly in the generally binding financial regulations. Enterprise financial management is further modified by economic production unit statutes. The organization of financial relations within a VMLJ has also been elaborated in *Khosraschet Principles for VMLJ and Enterprise* (HOSPODARSKE NOVINY,



supplements 46 and 47/1980). As far as the financial ties between the VML and its subordinate enterprises are concerned, the greatest significance is possessed by the centralization of some profits and the writeoffs for capital equipment from the enterprise to the VML. This is a matter of applying a portion of the profits to carrying out transfers to the state budget for the VML as a whole, and the application of a part of the profits and writeoffs of capital equipment to VML funds, and to redistribution among the enterprises within the VML. The new financial regulations also directly establish the basic modifications for this centralization and redistribution of financial resources. They deal with such fundamental matters as the planned character, efficient form, and stimulative character of the establishment of these relations, the reduction of contrary movements by financial resources, etc.

#### New Modification of Requirement Financing by VML and Enterprises

The basic new elements of VML and enterprise financial management, namely, the increased percentage of in-house financing of their needs, the increased efficiency of the financial funds, etc., influence the means for financing individual types of requirements of the VML and enterprises, especially the financing of capital stock replacement, the development of science, technology, and working capital.

#### Financing Investments

This is the area that will undergo the most substantial changes in comparison with the current situation (Ordinance 162/1980, Laws of the Czechoslovak Socialist Republic). The purpose of the modifications is to strengthen the influence of the financial system on investment efficiency among other things, by increasing the percentage of in-house VML and enterprise resources used to finance investments, and by seeing to it that the major portion of the investment of the enterprises of the VML are applied directly to profit generation. Generally speaking, the fulfillment of technical and economic criteria is becoming more evident as a binding condition for investment financing.

New investment is being financed from two funds--the construction fund and the development fund.

--The construction fund finances all construction projects of more than Kcs 2 million of budgeted costs, or most investment projects. The sources of the construction fund are: allocations from profits, allocations from capital asset writeoffs, an allocation from a supervisory agency or a subsidy from the state budget, and in some cases additional financial resources according to legal regulations. Resource allocations for the construction fund are established in the financial plan of the VML and its enterprises. The CSSR government has approved new principles for the granting of subsidies from the state budget for investment purposes, and which have substantially limited these subsidies. The bank provides an investment credit for investments financed from the construction fund.

--The development fund, which belongs among the material incentive funds, finances construction projects under Kcs 2 million of budgeted costs, as well as machinery and equipment not included in the budgets of construction projects, that is, investments which are critical to rapid and efficient construction, modernization and technical progress in production. The development fund is generated in the VML from profits and capital asset writeoffs based on specific standards, whereas the allocation

from profits is carried out only upon the fulfillment of certain conditioning indicators. The legal regulations provide for specific supplementary allocations to the development fund, for instance from price concessions granted to high quality, fashionable and technically progressive products, from the fund for material incentives for exports and some others. The bank also grants an investment credit for investments from the development fund. The development fund is organized basically in industrial VNJ, in the industrial enterprises of certain other sectors, in certain construction-oriented VNJ, as well as those for agricultural supplying and purchasing and in enterprises providing technical services to agriculture. Where a development fund has not been organized, all investments are financed from the construction fund.

A major portion of investments (30-65 percent in industrial sectors) comes into direct contact with the economic performance of a VNJ and enterprise through the medium of the development fund. However, the VNJ and its enterprises must always fulfill the established technical and economic criteria for the arrangement of an investment from the development fund, as these are established by its supervisory agency. If these criteria are not fulfilled (for instance, the utilization of existing capital stock, the share of modernization in overall investments, the task of retiring unneeded and unuseable machinery capital stock, etc.), neither the VNJ nor the enterprise may arrange for financing from the development fund, even when this fund has sufficient financial resources.

This new method of investment financing is not the sole influence on investment efficiency. A number of measures in the overall complex of the Improved Planned Management System are focused on this area, for instance the application of production-asset profitability in the system of material incentives, improved results from the integration of the consequences of investments into the economic performance of the VNJ and its enterprises, a greater emphasis on profits generally, etc.

The new regulation concerning the financing of the replacement of capital assets, in addition to the above basic changes, a number of additional separate, but significant, modifications which lead to an overall strengthening in the efficiency of the system. For the time being, there has been no change in the legal modification of the factoring and payment for investment work and deliveries, an area where it is likewise necessary to resolve problems connected with the efficiency of this system. It is expected that the relevant ordinances will be updated within 2 years.

#### Financing of Scientific and Technical Development and of Working Capital

Regarding the financing of noncapital expenditures for scientific and technical development (Ordinance 163/1980, Laws of the Czechoslovak Socialist Republic), the following fundamental changes may be cited in comparison with previous legal modifications:

--the importance of the technical development fund is increased as the sole source in the enterprise sphere for the financing of technical development; this fund is organized by the VNJ and is generated based on expenditures; enterprises create such a fund only on the basis of a decision by the VNJ, and a sectorial technical development fund is organized at the central sectorial agencies and is generated from transfers from the technical development funds of the constituent VNJ;

--the financing of enterprise technical development efforts through the creation of reserves for these costs has been eliminated;

--research and development work is financed under the following conditions:

--that the preliminary calculations of the research and development tasks of the whole project are approved,

--that in cases established by the legal regulations, wholesale price limits for a future product and cost limits for a new technology have been approved,

--that the implementing organizations confirm that insofar as economic advantages accrue to their management activity from the recalculations of economic efficiency, that these will be reflected over a certain period in their financial plans;

--the method of financing expenditures for technical development from the state budget is being modified in accordance with the new budgetary makeup.

Concerning the financing of working capital (Ordinance 164/1980, Laws of the Czechoslovak Socialist Republic), there has not been such a great change in financing methods. Among the most fundamental changes in this sector are:

--a new definition of regulated inventories and a new classification of working capital and inventories from a financial viewpoint;

--the organic incorporation of inventory turnover time indicators into the system of planning and financing inventories;

--the consistent financing of inventories according to the established indicator of the revolving fund as a percentage of inventories;

--the possibility of transferring resources (under precisely established conditions) between the revolving fund and the development fund and vice versa.

#### Changes in Generation and Utilization of Cultural and Social Services Fund

According to the new ordinance of the Federal Finance Ministry and the Central Council of Trade Unions (156/1980, Laws of the Czechoslovak Socialist Republic), there will be significant changes in the cultural and social services fund, a fund which is already known in current practice as an effective instrument of collective material incentives. The changes are above all in the area of its generation, and serve to increase its effectiveness. The new legal regulation includes these basic modifications:

--the basic allocation is established in the amount of 0.8 percent of wages paid out, and must amount to at least Kcs 300 per employee per year;

--the maximum upper limit of allocations to the cultural and social services fund from economic organizations may now amount to 2.8 percent of the total of wages paid out in those organizations which have a fund for material incentives for exports;

--in addition to the basic allocation (0.8 percent), an organization may gain supplementary allocations of up to 3 times 0.4 percent of total wages paid out (making the limit 2 percent) upon fulfilling established conditioning indicators;

--above the 2 percent level, the organization may gain an increased supplementary allocation of

--up to 0.4 percent of wages paid out from price concessions for high quality, fashionable, or technically progressive products, and up to 0.4 percent of wages paid out from the fund for material incentives for exports,

--in cases where price concessions do not apply to an organization, the increased supplementary allocation of up to 0.4 percent of total wages paid out may be awarded upon fulfillment of another established indicator which clearly relates to the efficiency, technical progressiveness, and quality of work of the organization; the allocation from the fund for material incentives for exports may not be replaced by anything.

--the following conditioning indicators are established for the supplementary allocation (3 times 0.4 percent):

--profits, or costs as a percentage of total output,

--labor productivity measured according to adjusted labor value added,

--delivery structure, or the consumption pattern.

The second and third indicators may be replaced by other indicators specified by the legal regulation in cases where an organization is not governed by the indicators described above.

The cultural and social services fund is created by the VNI and the enterprises (within the VNI) in a way directly established by the legal regulation, and so that the major part of the cultural and social services fund is created by the enterprises within the VNI with no tie to their results as a whole, while a part of the cultural and social services fund is created by the VNI (or the cultural and social services funds of the enterprises may be strengthened).

Allocations to the cultural and social services funds from budgetary and contributory organizations amount to a maximum of 1.7 percent of the yearly volume of wage resources, at the same time that the basic allocation amounts to 1 percent and a supplementary allocation to 0.7 percent (given the fulfillment of the main goals of the organization); for national committees and the budgetary and contributory organizations managed by them the basic allocation also amounts to 1 percent, and the supplementary to 0.5 percent, but this may be increased to 0.7 percent of the yearly volume of wage resources from the reserve and development fund of the relevant national committee.

Regarding the use of the cultural and social services fund, there have been some important changes, the most basic of which is an increase in the jurisdiction of union organizations in the management of the resources of the cultural and social



services fund (an overall amount of these resources is set aside for cultural and educational activity and is at the disposal of the factory committees of the Revolutionary Trade Union Movement), and furthermore, no more nonrepayable loans will be granted from the cultural and social services fund for stabilizational cooperative apartment construction in connection with the new method for its financing. In addition, there will be smaller changes intended, among other things, to simplify the alterations in the utilization of the cultural and social services fund.

This article has provided basic, overall information concerning the new financial regulations which were published and became valid on 1 January 1981. Clearly, not all the changes have been presented here, nor have I offered a specific solution to the issue of financial management in individual sectors, and which are contained particularly in CMEA government decrees concerning the financial management of VUL and enterprises. Nor is it a matter of the full or precise interpretation of individual ordinances. The purpose of this information is to focus attention on the fundamental direction of the individual regulations, which is an increase in the efficiency of the influence of financial instruments, rules, and principles, as well as the system of financial management of the VUL and its enterprises as a whole. The regulations themselves cannot assure the active influence of finance. This is possible only through their consistent application in the financial area, so that in conjunction with the other components of the planned management system of the national economy they may contribute to increased efficiency and quality.

## HUNGARIAN-AUSTRIAN TRADE RELATIONS DESCRIBED

Budapest FICVELD in Hungarian No 18, 6 May 81 p 9

[Article by Dr János Kalanovics: "Hungarian-Austrian Trade Relations. Growing Exports--Lower Deficits"]

[Text] The Republic of Austria is the Hungarian People's Republic's only capitalist neighbor. For this reason, Hungary's relations with Austria--be they of political, cultural-scientific, or of commercial nature--have a market significance.

Signs of dynamic developments in our country's economic and trade relations with the Republic of Austria were particularly evident in the course of the past 10 to 15 years. As an example, between 1965 and 1975, the volume of this trade has basically trebled. The year 1974 was particularly significant, because in that year Hungary became Austria's number one trading partner among the CEMA states. Moreover, Austria also became one of our country's most significant West European partners.

### Freight-Intense Goods

Since the mid-1970's, however, a number of unfavorable phenomena have also appeared in this relationship. These are connected partially with the West European economic recession and the consequent decline of prosperity, and partially with the tariff restrictions upon the socialist states that stem from Austria's membership in the EFTA. No one can deny that Austria has a positive economic policy toward the socialist states, including our own country. This means that ever since January 1, 1975 Hungarian imports have also been treated most liberally, i.e., all quantitative limitations have been eliminated and replaced by the so-called "endorsement system." Both countries are GATT signatories, which can help to remove various limitations to the expansion of trade.

During the 1970's Hungarian-Austrian trade relations have experienced a dynamic growth, and the value of this trade has increased sixfold. In the early 1970's Austria was the recipient of about 2.5% of our country's total foreign trade. Today this ratio is about 5%. This means that currently Austria is our fourth most important supply market (after the Soviet Union, West Germany, the GDR, Czechoslovakia and Italy). Notwithstanding these dynamic developments, our



country's participation in Austria's foreign trade is still only slightly above the 25 mark. It is very important to emphasize this because of our geographical proximity that can play a decisive role in the development of this relationship. All we have to do is to point out that the ratio of freight-intense goods in our mutual deliveries is very high (e.g., aluminum oxide, steel products, aluminum scrap, bulk aluminum, chemicals, asphalt, wood pulp, timber, paper, steel, etc.).

In 1979--precisely because of the dynamic growth of Hungarian exports--this trade relationship has witnessed a relatively favorable change, which trend continued during 1980. In 1980 the value of Hungarian-Austrian trade reached 28.4 billion forints. Hungarian exports amounted to 12.2 billion forints and Hungarian imports to 16.2 billion forints. Thus, the deficit has decreased from 6.3 billion forints in 1979 to 3.9 billion in 1980. Trade relations became more balanced, but the composition of Hungarian goods still continued to be plagued by problems. Thus, the termination of tariff limitations by the Austrian partner could help us a great deal.

In addition to the already mentioned materials and semi-finished goods, Hungarian exports also contain significant amounts of agricultural and food products. The ratio of finished industrial goods is unusually low. Their quota never exceeds 3-4%. The ratio of consumer goods is also below the 10% mark. On the other hand, the larger part of our imports is made up of materials, and semi-finished and finished goods. As an example, the ratio of machines and capital goods in this import is 15% while that of consumer goods is 3%. Given these conditions, no one can doubt that an improvement in the composition of goods is a must. Accompanied by a continued division of labor within the processing industry, such improvements could result in an increased exchange of goods, while also bringing about changes in the unfavorable balance of trade.

But to increase trade, it would also be necessary for the concerned Hungarian companies to pay more attention to quality advertising, i.e., to make their products known. This goal could be furthered by our participation at the international trade fairs in Vienna, Klagenfurt and Graz, as well as at various other trade shows, exhibits and conferences. Last, but not least, it would be necessary to improve the structure of the Hungarian goods exported.

#### About a Hundred Cooperative Ventures

Developments in trade can be enhanced through various cooperative ventures in production. We signed our first Cooperative Agreement on Economic-Industrial and Technical Cooperation in 1968. By September 1979 we signed a new, ten-year agreement. The execution of this agreement is being aided by the Hungarian-Austrian General Joint Commission. The minutes of the Commission's seventh meeting, for example, contain the following statement: "The two partners regard it important for the European countries to increase their bilateral and multi-lateral cooperation in the areas of environmental protection, transportation and energy." With respect to these two countries, a number of encouraging results have already been born in the region of environmental protection and transportation. These cooperative relations, and possible developments in their economic-industrial cooperation have also served as significant topics for

discussion on the agenda of the April 1980 unofficial meeting of the Hungarian and the Austrian heads of state. They have discussed, for example, the possible joint exploitation of the brown coal (lignite) fields in the border areas, improving the infrastructure of tourism, cooperation concerning the aluminum industry and electrical energy, as well as improvements in transportation.

Today there are roughly a hundred cooperative ventures in effect between Hungarian and Austrian companies. The interest of these companies include virtually all branches of industry. And what is most significant, about forty of these cooperative ventures concern the machine industry, and about thirty the chemical and pharmaceutical industries. It is likewise noteworthy that the majority of the mentioned ventures in cooperative production involve small and medium size plants. Of the agreements in question, we will mention only a few recent ones: In early 1980,—through the intermediary of the Technoimpex—the Machine Tool Plant of the Csapal Works and the Austrian Heid A.G. Machine Factory have signed an agreement of cooperation, which makes it possible for the Csapal plant to quadruple its exports to the dollar markets. According to this agreement, the two concerns will jointly plan and manufacture a new line of lathes. This goal fits neatly into the Hungarian plant's development program. Nor is it a negligible factor that the Austrian partner enterprise is a long established traditional company known throughout Europe.

Under a cooperative agreement between the LIGNIMPEX Paper Company and the MEO Trust, on the one hand, and the Austrian Mayr-Melnhof Company, on the other, in the course of the next 5 years the LIGNIMPEX will supply the Austrian partner with an increasing quantity of paper scraps, while the latter will reciprocate with cardboard paper for manufacturing packing materials. The annual value of mutual deliveries will reach 250 million forints. But the Austrian enterprise will also extend technological aid to its Hungarian partner.

#### Joint and Subsidiary Companies

Last, but not least, we must also mention an agreement on tourism that was signed only recently by Dr Vilmos Saghy, the Minister for Domestic Trade, and the President of the Council on Tourism, and Dr Josef Staribacher, the Austrian Minister for Trade and Industry. The significance of this agreement of cooperation concerning tourism is underlined by the fact that within our tourist industry about 40% of our Western tourists are made up of those coming from Austria. The tourism of this neighboring country that is directed toward Hungary has basically quadrupled in the course of the past 10 years. This agreement encompasses, among others, regional planning for tourism, cooperative efforts concerning environmental and nature protection, as well as support for such cooperative ventures between Hungarian and Austrian companies that concern themselves with the construction of various projects. At the moment, five hotels are being built in Hungary through joint Austro-Hungarian efforts. A number of these will be opened already in the early part of 1982. These are to be followed by the construction or renovation of others.

At the present there are eight international economic agreements in effect. Among them are those that deal with the long-range exchange of goods. One should also mention the 1977 agreement that regulates cooperative efforts in the area of tariffs, as well as another agreement concerning the protection of industrial

rights, which was likewise signed in 1977. There are over ten joint Austro-Hungarian enterprises that function in Austria, while in Budapest five Austrian subsidiary companies and five regional offices enhance the cooperation between the two countries. Moreover, the Chambers of Commerce also play a significant role in promoting mutual cooperation.

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COUNCIL OF MINISTERS RULES ON FIVE-DAY WORKWEEK

Budapest MACTAR KOSLOVY In Hungarian 27 Apr 81 pp 415-417

[Resolution of the Council of Ministers No 1013/1981 (27 April) On the Introduction of the Five-Day Workweek and Related Modification of Working Hours]

[Text] In agreement with the National Council of Trade Unions, the Council of Ministers has adopted the following resolution, in the interest of changing over to a five-day workweek:

1.

1. A five-day workweek may be introduced

--As of 1 July 1981 at plants that operate continuously or in three or more shifts per day, and at employers where the number of employees assigned to continuous operation or to operation in three or more shifts per day exceeds one-half of the total number of blue-collar workers;

--As of 1 January 1982 at other employers, including state enterprises in the agricultural sector.

The changeover must be completed by 30 June 1982, except at educational institutions, in agriculture, and in certain special cases.

2. Simultaneously with the introduction of the five-day workweek, the standard hours per week must be reduced from 44 to 42, and to between 40 and 42 in the case of workers assigned to continuous operation or to operation in two or more shifts per day.

3. Parallel with the introduction of the five-day workweek, the inclusion of breaks in the standard hours per week must cease. The wages of the workers concerned must be increased by the amount of pay for the paid breaks. The rates of the base wage system may be exceeded by the amount of increase in base pay due to pay for paid breaks and to shorter working hours.

4. The conditions for introducing a five-day workweek, respectively for the corresponding shortening of the working hours, are as follows:

--The five-day workweek must be achieved with internal resources. The economic organs' income may not decline, and their financial (economic) situation may not worsen for this reason. The effect of the shorter available

working time must be offset by raising the efficiency of economic activity, by improving the organization of the production processes, by modernizing the technology, by reducing the sources of losses, by introducing effective work schedules, and by regrouping the workers. As a rule, central financial aid may not be used, and even in exceptional cases it can only serve to supplement internal resources;

--The workers' wages may not decline due to the shorter hours. This must be achieved by raising the performance requirements, and by creating conditions to ensure their fulfillment;

--The proposed changeover to the five-day workweek must not hamper the economic organ in fulfilling its tasks, nor the continuous supply of the population's needs;

--Continuity of the mutual relations between economic organs, and of handling the population's affairs, must be ensured.

5. 4. As a rule, the five-day workweek must be formed by providing a day off per week, in addition to the weekly holiday. In the case of uneven work schedules, the day off per week must be ensured on average for the year.

Work schedules may differ from the above at employers who operate continuously or in two or more shifts per day, and also at employers who supply the population and provide services for it. In the case of such work schedules, the workers may be given even more than one day off per week.

b. In the collective contract (or work rules) the employers may set the work schedules--pursuant to the provisions of Item a--independently, with due consideration for their tasks and the workers' interests.

## II

a. No permission is necessary to introduce the five-day workweek if the conditions prescribed in this resolution are met, respectively within the centrally established limits on the standard hours per week. The decision to change over to a shorter workweek lies within the competence of the employers. To substantiate such a decision, a Program must be drafted on the basis of the pertinent regulations and directives, jointly with the local organ of the trade union, with due consideration for the specific conditions. The Program must specify the tasks in conjunction with the changeover to the shorter workweek. The Program must contain the following:

a. The technical-economic, organizational, manpower-regrouping and lost-time-reducing measures to offset the effect of the dropout of available working time due to the shorter workweek;

b. The tasks related to production cooperation and to providing services for the population;



- c. The tasks in conjunction with organising freight transportation, to ensure economical freight transportation and the more even utilisation of transportation capacity. The forms of continuously fulfilling the transportation tasks (loading and unloading operations);
- d. Schedules for the production, shipping and sale of consumer goods, and for providing services;
- e. The workers' work rules and work schedules;
- f. Measures concerning performances and wages.

Measures that affect the activities of other organs must be coordinated in advance with them (with the health, cultural, transportation—including also staggered working hours—trade and energy-supply organs, and cooperating enterprises).

The Program must be debated with the workers in the same way as the collective contract and must be finalized on this basis. The purpose of such consultations is to define the local tasks and forms of solution, on the basis of the central regulations.

In the Program the economic organ assumes responsibility for changing over to the shorter workweek in accordance with the central, sectoral and regional requirements.

7. For information and continuous control of implementation, the Program must be submitted to the supervising organ (in the case of cooperatives, to the chairman of the Budapest Municipal Council and the megye councils)

--By 15 June 1981 in the case of a changeover between 1 and 6 July 1981;

--By 30 June 1981 in the case of a changeover between 7 and 31 July 1981;

--At least one month in advance in the case of a changeover between 1 August and 31 December 1981; and

--By 1 October 1981 in the case of a changeover scheduled for 1982.

8. On the basis of the Program, a Bulletin must be prepared that has to contain the following:

- a. The measures affecting the operation or economic activity of other organs (transportation, trade, cultural organs, child-care institutions, etc.);
- b. The tasks related to freight transportation (loading and unloading);
- c. The number of workers affected by the measure;



- d. The workers' work schedule, and their starting and quitting time;
- e. The date of introduction.

The economic organs must submit the Bulletin to the chairman of the competent megye council, in accordance with the time limits set in Section 7.

9. In the case of Budapest employers, the Budapest Municipal Council will regulate separately the circle of economic organs obliged to submit to coordination by the council, and the content of the Bulletin.

10. The Budapest Municipal Council and the megye councils will examine, with due consideration for the branch directives, the economic organs' proposed measures and will coordinate them with the transportation, trade, public-health and cultural institutions and enterprises.

### III

11. The detailed conditions of the changeover to the five-day workweek for state-administration and justice employees will be set by the Council of Ministers; for the armed forces, armed corps and law-enforcement agencies, by the competent minister; and in the area of health care, education and culture (with differences corresponding to the peculiarities of each branch), by the branch minister, in agreement with the Minister of Labor and the National Council of Trade Unions.

12. To aid the introduction of the five-day workweek, the competent ministers will issue directives that take the branch peculiarities into account.

13. Within the framework of supervision, the supervising organs will continuously monitor whether the introduction of the five-day workweek is proceeding in accordance with the regulations.

14. The Council of Ministers requests the National Council of Trade Unions to aid in the implementation of the provisions of this resolution.

15. The present resolution becomes effective the day of its promulgation; simultaneously Resolution of the Council of Ministers No 1034/1974 (4 July) On the Further Expansion of the Workweek's Reduction will be rescinded.

Signed: György Lazar,  
Chairman of the Council of Ministers

1014  
CSO: 2500/753

## INVESTMENT PLANS, PROBLEMS DISCUSSED

## Factors Determining 1981-1985 Investment Policy

Warsaw INWESTYCJE I NUDOWNICTWO in Polish No 1, Jan 81 pp 1-6

[Article by Albin Plocica: "Determining Factors of Investment Policy in the Years 1981-1985"]

[Text] Investments are not a goal in and of themselves but are one of the means of carrying out higher goals (social and economic ones) appropriate for particular periods of the country's socioeconomic development. Their sizes and structure depend upon and are related in many different ways to the whole economy, the level of the country's socioeconomic development, and the economy's economic needs and capabilities. Through the production forces and resources, and the needs which arise, the level of the economy and social development have an impact on the size and structure of investments in the country, and their execution creates technical potential which aids in the development of production, increased national income, and improved living and cultural conditions for the population.

As the result of investment activity there are created in the economy various sorts of components of fixed assets serving production, consumption, social, living, and cultural purposes.

Investment policy has an important impact on the economic balance in the country, including foreign trade and market balance.

Investments provide the technical base for the development of production and services, that is, the technical conditions for their increased supply, and for modernization and an expansion of the assortment of available goods and services. At the same time they create certain jobs, conditions of employment, and a rise in income from work, which means that they increase market demand. Here we should clearly emphasize their important role in creating demand and add that in each zloty of realized investment outlays in the country there are over 40 groszy of payroll fund, which creates a certain demand on the consumer market. Independently of this, the large sizes of investments and the

increase in them bring about a rising demand for the means of production and capital goods needed to carry out the investment, as well as a substantial demand for raw materials and other materials and power needed for production and for the operation of the plants built.

These important functions and consequences of investments do not exhaust their role in socioeconomic development, however, because investments serve many other important socioeconomic functions, with which we must be familiar both in order to find strategic solutions and in order to conduct current economic policy.

On the other hand, investments at the same time require considerable economic outlays ultimately covered out of the national income of the country. These outlays in the realm of investing reduce the portion of the national income which could have been allocated to increase the population's current consumption.

Hence, investment policy is an extremely important part of the country's overall investment policy to which it should be subordinated. It should take into account the capacity and needs of the economy and serve the higher goals of the country's socioeconomic development.

In the realm of investment policy of the state many complicated socioeconomic problems come into play. The following are among the basic tasks of this policy:

Determination of overall sizes, the rate of growth and the rate of investment during the various periods of the development of the country,

Delineation of the directions and structure of investments in the economy and the ratios for distribution of investment outlays between sectors of the economy and branches of production, from the viewpoint of comprehensive and effective development,

Determination of the allocation of investment outlays according to district from the viewpoint of proper distribution of production forces and socioeconomic development of regions and the effective use of human and raw-materials resources in the country,

Definition of the principles, instruments, and parameters of the investment system to regulate investment activity and stimulate the efficiency of investment processes and the effective use of outlays for investments.

Other tasks and problems of the country's dictated by the situation and needs of a concrete stage of socioeconomic development usually go into this. For example, at the present time one of them is the rapid increase in consumer goods production. Others are a rise in housing construction, the acceleration of the development of agriculture and the food economy, the elimination of imbalances in economic development, and so on.

It would be impossible to discuss in a single article the determining factors concerning all the elements and tasks of investment policy of the country during the next five-year period. For this reason we are presenting in it only the most important factors determining one of the elements of investment policy, the determination of the sizes and structure of investments in the economy during the next five-year period. After all, this is one of the most important elements not only of investment policy but of all economic policy, one which is decisive in such basic questions as: the distribution of national income for accumulations and consumption, the rate of development of the economy, the sizes and structure of production in the future, and the level and structure of consumption by the population.

The sizes and structure of investments in the economy can not be set arbitrarily. They depend on many factors which fall into two major categories: the needs and possibilities for investments in the economy.

It is extremely difficult to quantify investment needs in the country. These needs appear in economic organizations' demands for investments, as presented in the form of investment proposals for economic plans, in the demand for capital goods, in the demand for various commodities, and in shortages of production capacity to produce them, in the shortage of housing and public health facilities, and also in the low level of development of various areas of the economy or regions, inadequate management of certain raw materials, shortages of vehicles, the lack of environmental protection equipment, and so on.

Despite a very active investment policy throughout the postwar period, the investment needs in our country continue to be great, and in certain areas they are constantly on the increase.

The main sources of growing investment needs are the social and economic processes of development. The broader and more rapid these processes are, the greater the investment needs usually are, because under these conditions the country's various social and economic problems require solutions.

Demands for investments arise not only out of the processes of eliminating areas of underdevelopment in specific fields but also out of requirements stemming from a high level of development. Thus, for example, invested branches of production create investment needs in the realm of reproduction of worn out fixed assets and their modernization and supplementation, because the failure to meet needs in this area leads to decapitalization of fixed assets, and the hampering of technical progress and production development. Excessive deferments to meet these needs in later periods subjects the economy to the risk of grave losses.

An important source of investment needs is the demographic processes in the country and at also the processes featuring a great demographic rise in the population of production age for whom new jobs must be created, as well as the processes of an excessively low natural increase in the population. In the last instance, the shortage of labor creates the necessity of accelerating the processes of modernization of technical potential and the mechanization and automation of production processes, which require investment effort.

At the present time the large investment demands are creating unmet growing cultural, social, and everyday living needs of the population in the realm of housing and municipal construction, social welfare and public health, higher-grade cultural goods, tourism, recreation, better working conditions, environmental protection, the use of machinery to replace jobs which are burdensome or harmful to health, and so on.

At the current stage of Poland's socioeconomic development, this type of investment need is becoming greater and greater.

In summing up this section of the deliberations and translating it into concrete terms, we must emphasize that under the conditions Poland faces concerning the 1980's, the substantial investment needs are the result and will be the result of the following socioeconomic processes and phenomena:

the need to make up for delays and backlogs and to accelerate the development of market production and services and to eliminate production bottlenecks and economic imbalances, which will call for large expenditures for the development of agriculture and the food complex, the housing construction complex, market industries, the power industry, transportation and communication, the construction of public health installations, and so on,

the rapid development of scientific and technical progress in the world and the needs to inculcate it in our country also,

the development of economic interconnections and international exchange, which make it necessary for those production areas which are or can be the subject of production cooperation and export to be constantly upgraded in terms of product modernity and production methods, which also requires certain investment outlays given the demands of the international markets,

the need to expand within the economy intensive production methods set up for more effective management of the fundamental production processes, that is, reduced labor increases and restricted resources of raw materials, other materials, and power; this calls for the expansion of the processes of mechanization and automation of tasks, the introduction of modern technological methods, whose execution is also related to investment needs,



the need to reproduce and modernize production- and nonproduction-type fixed asset resources which are important in the economy and wearing out,

the substantial differences which still exist in the level of socioeconomic development from one region, town, and area of Poland to another, differences which require investment outlays and their proper regional distribution to eliminate also.

As the result of the rapid development of industry, substantial investment are already occurring and will continue to appear in the realm of resolving the growing problems of environmental protection in the country.

Of course these are only the major processes and phenomena the solution of which gives rise to specific investment needs and will continue to do so in the distant and near future.

Skill in projecting the development of investment needs, their nature, scope, and time of occurrence is important to proper investment policy. For this reason too the investigation and forecasting of investment needs should be expanded with the same exactitude as the forecasting of other social needs.

Nonetheless, alongside the knowledge of investment needs, the possibilities of the economy and the state in the investment realm are of fundamental significance to the structuring of economic policy. Here it is first of all a question of economic, technical, personnel, and organization possibilities.

From the viewpoint of socioeconomic possibilities, such factors as the following have an important impact on the sizes and structure of investments in the national economy:

the sizes and material structure of generated national income and income for distribution anticipated during the planned period,

the population's consumption level achieved in the country and the need to maintain it and to increase it according to plan, which determines the limits for the distribution of national income for accumulations and for consumption, as well as the level of the investment rate during the planned period,

the balance-of-payments situation in the country and its export-import ability during the planned period,

the balance-sheet possibilities for supplying investment projects with the necessary amounts and items of machinery, equipment, and other capital goods during the planned period,



personal, technical, and organizational possibilities for the construction industry to carry out investments,

the country's investment situation in the initial period, especially the state of continuing investments, the structure of the freezing and committing of investments, and the effectiveness of the investment processes in the economy,

These are the most important factors among those which must be taken into account in determining the size and structure of investments in the country. Their presence creates certain possibilities and barriers in the realm of the size and structure of investments (technical, social, and economic), which cannot be changed upward or downward without adverse effects on the economy. In other words, we can say that the network of these factors and their quantification determines the optimal size of investments in the economy during a specific period. This is obviously a variable optimum, because the network of these factors and their strength of impact are subject to change with time.

Excessive sizes of investment in the country lead to many adverse socio-economic consequences which can be considered in two categories.

The first group of effects consists of excessive withdrawal of social outlays and resources from the sphere of consumption to allocate them for investments, leading to the interruption or upsetting of economic balance, including market balance, and to the restriction of growth or even a decline in consumption and the standard of living of the population for a given period.

The second group of adverse effects of excessive investment consists of adverse phenomena in the investment activity itself, phenomena which reduce the effectiveness of the investment processes and the effectiveness of the outlays made for investments. Excessive investment sizes lead to the disruption of investment balance in the economy, deconcentration of investment resources and outlays, numerous tensions in the completion of investment projects, the prolongation of cycles for carrying out and completing installations, a rise in investment commitment and freezing and in the costs of completing investments, and also to a decline in the quality of the work performed and the installations constructed.

Both groups of these adverse phenomena have appeared in our country as the result of overinvestment in the years 1971-1975, and our economy is still feeling the results.

Overinvestment in the economy also leads to numerous adverse socio-economic effects. It leads to the following:

a decline in the rate of growth of production and of national income in the future and even to stagnation in this area.

In our current situation, we should include the following among the most important factors which are hampering or will hamper the sizes and growth rate of investments during the first half of the 1980's:

reduced level of generated national income and national income for distribution in 1979-1980 and a small anticipated increase in it in the next few years,

unfavorable balance of payments of the country, the need to repay foreign debts, and the restrictions on investment imports,

a very unfavorable market situation alongside rapidly rising cash income of the population and the need to maintain and then to improve the population's standard of living and consumption.

Let us try to describe these factors briefly.

As the result of adverse internal and external conditions, imbalances in the economy, a shortage of raw materials and other materials and power, the growth rate of material production and national income has been low during the past few years. The annual rise in national income for distribution has been 2.7 percent in 1977, 0.7 percent in 1978, and in 1979-1980 there was even a decline in the level of generated and distributed national income compared to the previous year. In 1980, as the result of production stoppages and the crisis situation, as well as serious crop failure in agriculture, the decline in the level of national income is substantial. This has a grave impact on investment possibilities in the economy during the next few years. Analyses of the conditions of development show that the growth rate of generated national income during the next 2 years will be low, amounting to an estimated 2-3 percent per year, but, owing to the need to restore equilibrium to the country's balance of payments and to repay the foreign credit arranged earlier, the rise in national income for distribution will be still lower, and additional foreign debt will probably be incurred.

At the same time, owing to the serious lack of money-market balance and the further very rapid rise in the population's cash income, it will be necessary to further reduce the share of national income devoted to investments, in order to increase the resources in the consumption fund. In this situation, it is difficult to talk about a rise in investments on the scale of the economy during the next 2 years.

The substantial decline in the rate of growth of investments in the country has already occurred between the years 1976 and 1980. In 1976 the rate in investments amounted to only 2.2 percent, while the figures in 1977 and 1978 were 4.3 percent and 1.6 percent, respectively, and in 1979 and 1980 there was a decline in the level of investments in relation to 1978. Let us recall here that the plan of investment outlays in 1980 amounted to 606.2 billion roubles.

limiting or excluding the possibility for development or modernization of the economy or for a rise in the standard of living, the inculcation of technical progress, the development of economic cooperation and international exchange, or the possibilities for utilizing labor resources or other production factors in the country for its socioeconomic development, which represents the most serious social and economic loss,

decapitalization of fixed assets, which require continual modernization and reproduction, and the lack of investment capacity in this area leads to substantial economic losses on this account,

excessively slow solution of numerous socioeconomic problems, like the elimination of imbalances in various areas of the economy, equalizing the level of socioeconomic development from one region of the country to another, creating a technical base for the development of services, science, education and mass culture, public health, and environmental protection.

Therefore the investment policy of the next few years faces a basic dilemma: To what extent and for how long should further investment restrictions in the economy last? Various motives of a social nature call for substantial limitation in the sizes and rate of investment in the country so that the funds not expended for that purpose can be directed to the maximum extent to a rise in the production of consumer goods and current consumption, in order to bring about immediate improvement in market supply.

Of course, serious shortages in the supply of consumer goods and the resulting importance of market matters and the issue of ongoing consumption suggest the selection of just such a direction in economic policy, but it is a matter of seeing that this action does not go on too long and lead to serious adverse socioeconomic effects for tomorrow.

It is for this reason that alongside there should be basic types of actions going in the direction of the following:

maximum exploitation of existing production capacity and plants to expand production and services without investment,

a shifting of part of the basic production apparatus in the economy to the production of the goods and services most needed on the market,

careful, in-depth guiding of the investment structure in the economy, because in this area there are substantial possibilities for overall investment outlay economies to be found within our economy, and at the same time there are possibilities for increasing the investments in the areas most necessary for the economy.

The draft plan for 1981 calls for investments of 530 billion zlotys, which means a further decline in the level of investments in the economy, which decline will amount to 126 billion zlotys in relation to 1979 and to about 100 billion zlotys in relation to 1980.

The factors mentioned above are the reasons for the fact that the rate of growth of investments in 1982-1983 based on national income of the country will be very low. It is to be supposed that the sizes of outlays allocated for investments in 1983 will be at the 1978 level at best. It will not be until the following years (1984-1985) that their rate of growth might approximate 3-5 percent per year, if the situation is good.

Owing to the above-mentioned conditions and, above all, to the need to improve the market situation and the standard of living of the population, it is to be anticipated that during the next five-year period there will also be a further decline in the share of national income devoted to investments. In constant prices, in 1971-1975 the share of net investment outlays in national income increased clearly, amounting to 19.5 percent in 1971, 22.2 percent in 1972, 24.6 percent in 1973, 27 percent in 1974, and 28.6 percent in 1975. From 1976 on it began a gradual decline, 26.7 percent in 1976, 27.2 percent in 1977, 26.1 percent in 1978, and 23.2 percent in 1979.\*

According to the 1980 plan, this share was to have been 18.4 percent, but in practice, owing to the failure of national income to reach planned levels, it was about 20 percent. The need to direct a maximum of national income to improve the market situation and the ongoing consumption of the population is the reason that during the next 2 years this share may decline to 14-15 percent. It would seem that a further decline in the investment rate in the economy would be counterindicated, because this would run the risk of losses and adverse effects for the future. This would require the interruption of a great many continuing investments, which would lead to the serious freezing of outlays and to the decapitalization of existing fixed assets in many areas of the economy, and would greatly slow the processes of reproduction and modernization of fixed assets in industry. This would also make it impossible to increase outlays for the development of housing construction and market production, agriculture and food production, the hospital industry, and so on.

It should be added that in the socialized economy about 130 billion zlotys must be allocated each year just for the reproduction of worn out fixed assets, to say nothing of the costs of modernization, which are higher. The rate at which machinery and equipment wears out in many industries is very high. For example, in the leather industry the rate is 52 percent, in the mineral industry over 51 percent, and in the food and timber-paper industries, over 50 percent.

\*Viz: "Inwestycje 1979 r" [Investments 1979], published in 1979 by the Main Statistical Office (GUS), p xx, and "Rocznik Statystyczny 1980" [Statistical Annals 1980], p 72.

The excessive reduction of the sizes and rate of investments in the economy would gravely hamper the completion of many continuing investments, but the situation in this area is already very bad. Owing to the broad front of investments begun in earlier years, and then the need to reduce the rate of growth of investment outlays in the economy, it became necessary to hold up or deliberately slow down the rate of completion of many investment projects, which meant extending the cycle for carrying out many investments and freezing outlays in continuing investments, and in 1980 this may reach a total of about 800 billion zlotys. On the other hand, investment commitments, or outlays which must be incurred, in order to complete investments which have been begun, will approximate 1.4 trillion zlotys by the end of 1980. Taking into account the fact that annual outlays for investments in the economy during the next few years will amount to about 530-540 billion zlotys, this means that if all these outlays were directly merely to continuing investments, it would take about 2 and a half years to complete the investments already initiated. In practice this will be a longer period, because each year part of the outlays have to be allocated to urgent new investments, those, for example, in housing construction, municipal construction, public health, and in the market and food complex, in power industry, in transport, and so on.

In 1981-1985 there will also be the need for substantial changes in the directions and structure of investment in the country. The major causes for these changes are the urgent social and economic needs, especially market needs evoked by the very rapid rise in the population's income and the need to equalize the balance with goods, along with needs related to the development of certain types of social consumption.

Against the backdrop of these needs, in investment policy areas such as the following will be given major priority:

housing construction and neighborhood land development, along with the construction of hospitals and health services facilities,

agriculture and the food complex, in order to accelerate food production,

branches of market and export production in industry and services to the population,

undertakings related to improving the effectiveness of management of raw materials and other materials, and fuel and power, improving the quality of production, and so on.

This is the result of the presently very rapidly growing demand for the production and services of the above-mentioned areas of the economy and also the result of the fact that the sizes and rate of investment in these areas for very many years have been far lower than in industry, especially in the industry of the means of production.



Table: Dynamics and Structure of Investment Outlays in Poland (in fixed prices)

(1) Total outlays	(2) Growth rates in % of outlays				(3) Share of outlays			
	1951-1953	1954-1959	1960-1969	1970-1979	1951-1953	1954-1959	1960-1969	1970-1979
a) Capital expenditure	4.7	4.3	14.4	1.7	100.0	100.0	100.0	100.0
b) Current expenditure	4.0	4.3	10.0	1.7	85.3	85.3	85.3	85.3
c) Total expenditure	8.7	8.6	24.4	3.4	85.3	85.3	85.3	85.3
d) Investment in fixed capital	4.4	4.3	14.4	1.7	100.0	100.0	100.0	100.0
e) Investment in current capital	4.0	4.3	10.0	1.7	85.3	85.3	85.3	85.3
f) Investment in fixed capital	4.4	4.3	14.4	1.7	100.0	100.0	100.0	100.0
g) Investment in current capital	4.0	4.3	10.0	1.7	85.3	85.3	85.3	85.3
h) Investment in fixed capital	4.4	4.3	14.4	1.7	100.0	100.0	100.0	100.0
i) Investment in current capital	4.0	4.3	10.0	1.7	85.3	85.3	85.3	85.3
j) Investment in fixed capital	4.4	4.3	14.4	1.7	100.0	100.0	100.0	100.0
k) Investment in current capital	4.0	4.3	10.0	1.7	85.3	85.3	85.3	85.3

[Key:]

- (1) Sector of the economy  
(2) Mean annual growth rate in percent by period  
(3) Share of total devoted to outlays in percent

- (a) Total in the economy  
(b) Production investments  
(c) Nonproduction investments  
(d) Certain sectors of the economy:  
(e) Industry  
(f) Construction  
(g) Agriculture  
(h) Forestry

- (i) Transportation and communications  
(j) Trade  
(k) Housing economy

Source: "Inwestycje 1979" [Investments 1979], GUS [Main Statistical Office], 1979, p. 7



The data given in the table show this.

These data indicate that over a period of many years.

outlays for production investments in the economy rose more rapidly than those for investments in the social consumption sectors,

at the same time, the share of outlays for production investments was very high and continually increased, while the share of investments within the social consumption sectors declined,

from 1966 to 1976 the rate of outlays for agriculture were lower than the average for the economy as a whole, and their share of total investment outlays in the economy did not exceed 15-17 percent and basically remained at the same level for 20 years.

Against the background of previous delays in the development of agriculture and the very large, urgent food needs, it is already becoming necessary during the next few years and later to undertake a number of measures and to increase outlays greatly, including investment outlays for the development of agriculture and food production. Active investment action must encompass agriculture itself and the processing of agricultural food items, industries serving agriculture (chemical fertilizers, plant pesticides, farm implements and machinery, building materials and other materials), the sphere of purchasing and transporting farm products, storage, and the sale of agricultural food products.

Alongside the necessary outlays for the chemical fertilizer industry, farm machinery, and the development of technical services for agriculture, it is necessary to increase outlays for the development of farm construction for villages and the building materials industry. Urgent needs are appearing in the realm of facilities and equipment related to the purchasing of farm products, storage, warehousing, processing, and transportation of farm products. The shortage of these facilities and installations is causing tremendous agricultural product losses. The outlays for land reclamation for agriculture also need to be increased.

Specialists estimate that the share of outlays for agriculture and the foodstuffs complex, which is presently about 22 percent of all investment outlays in the economy, should be fundamentally increased during the next five-year period and amount to at least 30 percent of all outlays. Owing to the need to mobilize untapped reserves of agricultural production growth and to improve the effectiveness of the outlays made, it is also essential to make changes in the investment structure in favor of private farming. At the present time, state farming accounts for about 44 percent of all investment outlays in agriculture, while the cooperative sector accounts for about 25 percent, and the private sector only about 30 percent. This is a substantial departure from the structure of the farm production generated by these sectors and from the structure of the area of cropland which these respective sectors have available.

The increase in the size and share of investments in the above-mentioned areas of production and services requires a reduction in the share of investment outlays for industry, especially that of the means of production, given the very limited outlays available throughout the economy.

As the table shows, this industry enjoyed preferential treatment with regard to investments for many years.

As the result of the many years' priority assigned to the development of industry producing the means of production, its production increased by more than 300 percent from 1960 to 1978 (in fixed prices), while the production of the means of consumption increased by only 380 percent. The share of total industrial production devoted to the means of production, which amounted to 55.9 percent in 1960, increased to 64.1 percent by 1975 and 63.7 percent in 1978.

It is true that during the 1970's the outlays were increased and growth was accelerated for the production of consumer goods, but the size and structure of this production are presently inadequate, particularly in view of the great increase in payroll fund expenditures throughout the economy. In this connection and also in connection with other causes, substantial shifts in industry are essential in the structure of investment outlays and of production capacity to favor the acceleration of the production of consumer goods, exports, and the development of a base of coproduction items.

On the basis of the existing conditions and possibilities, the following types of investments in industry should be given priority:

The most effective and advanced investments in terms of execution being continued, whose completion will reduce the freezing of investment outlays and accelerate the growth of the production most sought after.

Effective modernization investments geared mainly to an increase in market production and a rise in exports, a decline in materials intensiveness and energy intensiveness, and improved effectiveness in the management of labor resources and other production factors.

Small new investments of high effectiveness and with short completion periods geared to the mobilization of essential market and export production, and the development of services and local industry.

In the years 1981-1985 there is a need for substantial shifts in the type structure of industrial investments. It will be necessary basically to restrict the construction of large plans and complexes, as well as large investment programs in the raw materials, metallurgical, metals, and engineering industries. During the next five-year period the economy cannot afford to undertake capital-intensive expenditures which take a long time to complete but take years to produce effects or new investments geared to

a quantitative increase in production capacity. This follows not only from the reduced outlays for investments in the economy but also from the significantly declining increases in the labor force, the worsening difficulties with raw materials and other materials and power, and the lower effectiveness of this type of investment.

The basic problem consists of the fact that the rise in extensive investments consisting of the construction of new plants and a quantitative rise in production capacities creates a great, cumulative, ever-increasing demand for a rise in employment and material-technical supply, imports of capital goods, raw materials, and coproduction items, and also a large increase in the demand for power, vehicles, and so on. All these factors will be difficult to obtain in the coming five-year period, and in connection with this fact the development of extensive investments would lead to further tensions in the balance between the market and the economy and equilibrium in the country. The development of investments of the extensive type is characterized also by the fact that because it gives rise to great needs for the basic production factors created in the supply sectors (those of the means of production), it creates in them additional investment needs and becomes an additional source of investment pressure on the part of these sectors. In this way it brings about a cumulation of supply needs for the means of production and sets in motion a self-driving mechanism of resistance to the development of those branches producing these resources and for further investments in these branches. Under these conditions there are tensions and imbalances in development, as well as shortages of resources for the development of the branches which produce consumer goods and of the areas of social consumption.

#### Investment Policy for 1981-1985

Warsaw INWESTYCJE I BUDOWNICTWO in Polish No 1, Jan 81 pp 7-11

[Article by Arkadiusz Wolowczyk: Problems of the Investment Plan in 1981"]

[Text] The economic difficulties which our country is presently experiencing require a limit on outlays for investments. This is an obvious notion which is generally recognized, but its more immediate conditions and effects are rarely considered. Hence, it is from this point of view that the current investment situation must be assessed, and this makes it necessary to reach deeper to get at certain problems of the investment structure.

The presentation of such an assessment and, against its backdrop, of its key problems which need to be resolved and decided upon requires first of all a consideration of the actual condition which has been created through the action of the past few years as a basis. It is not generally known to any real extent, because up until now the appropriate information in this area was not entirely out in the open. This fact made it

permit for a number of years the conduct of an investment policy which had not the slightest chance of enduring for any length of time. It consisted of making decisions to begin construction on an excessively large number of new investments for which insufficient outlays were allocated. No attention here was given to the basic requirement implied by the typical ratios for distributing outlays over the various years of investment execution. Of course this is a great simplification, but given a period of approximately 3 years as a cycle for carrying out investments, we can say that the rational organization of this process would require the following: about 10-15 percent of the total outlays during the first year (developing the land, excavation, foundation), about 40-50 percent during the second year (constructing the shell, part of the basic outfitting with machinery and equipment), and 35-50 percent during the third year (finishing, machinery and equipment). Usually more than 10 percent of the outlays were not allocated for the first year of contracting. When for many years higher needs for outlays began to grow during the next years of the realization of the investment, it turned out that the economy was not able to maintain such a great burden of investments carried by the national economy, that the economy could not allocate the required outlays for the various investments begun.

In our country the current investment commitment is estimated to be at least 1.3 trillion zlotys. The economy should still spend this must more, in order to complete investments begun in previous years. Up until now more than 700 billion zlotys has already been expended for these investments, and this amount is what is called frozen outlays.\*

If we compare the total sizes given with the overall sum of the outlays which the state has allocated for investments during a year, which sometimes happens, we come up with relations which are confusing and far from an objective reflection of the real complexity of this problem.

If we know that in 1981 the state intends to allocate 535 billion zlotys for investments (about 100 billion more than in 1980), then it could seem that in less than 3 years, without undertaking any further new investments, we could "discharge" the existing commitment, which means we could finish the investments already begun and undertake the achievement of a new one adapted to the needs of investment policy, but that is not so. The problem is far more complex. The source of this complexity is to be found first of all in the specific nature of a host of investment undertakings and the structure of the economy's investment needs.

\*The sizes presented here and further on are greatly "rounded off," but they still approximate the real data and basic ratios.



In the first case it is a question of the fact that a number of undertakings, mainly in extractive industry, metallurgy, and the chemical industry, call for a far longer execution period than the so-called average investment completion cycle, because in these instances that is the rational requirement of the investment process.

To explain the second case, which is of fundamental significance to show the complexity of the above-mentioned problem, it is necessary to portray the basic elements of the investment structure.

The targets of the investment plan for 1981 envisage the major directions for investment outlay allocations shown in Table 1.\*

Table 1 includes first of all those areas of the economy in which the size of investments should not be reduced. This pertains particularly to housing investments, land development for this purpose, and investments of the population and market industry. It is essential to maintain a preferential system of treatment for these areas, obviously.

In many of them it is necessary to assure continuity and an even flow of investment, because investments in these areas are accomplished over relatively short cycles. Hence, in this instance investments in the above-mentioned and other areas cannot be treated identically.

Given the need to give preferential treatment to the above-mentioned areas, it is not possible to guarantee the necessary outlays (even at the 1980 level) for a host of other areas, even for socialized agriculture, volunteer projects, the purchase of machinery and equipment not related to construction, including that necessary for reproduction and modernization projects, and so on. The main burden of the outlays restriction falls on the so-called basic industry ministries (item 11 in the table), for which it is possible to outlay for investments 63 percent of the total outlays expended in 1980. Here it is important to pay attention to the fact that it is mainly in these ministries that we find the highest investment commitment. It is substantial in the transportation ministry, the ministry of market industry, and in socialized agriculture (items 7-9 of the table).

For the purpose of orientation, we can assume that in the above-mentioned ministry groups the investment commitment amounts to about 950 billion zlotys. The outlays which would be essential in 1981 for the rational continuation of these investments are approximated at 320 billion zlotys. Meanwhile, as the result of detailed assessments it turns out that in 1981 only about 150 billion zlotys can be allocated for these investments. This follows from the fact that restrictions on the execution of continuing investments in 1981 approximate about 170 billion zlotys altogether. At the same time, if we compare the size of the commitment and annual outlays for investments mentioned here, then we can see that

\* Data in the table are approximate. In the table the ministries and areas of the economy are in an order other than that usually used, so that the areas currently given priority come first.



Table 1. Major Directions for Investment Outlay Allocations in 1981 Plan

(a) Wykazanie	(b) Wydatki planowane na 1981 rok w mld zł	(c) Wydatki do wykonania planowane w 1981 roku
1	2	3
(d) Gospodarka narodowa	22	22
(e) Gospodarka społeczna	22	22
(f) 2. Nowa polityka państwa		
1a. Planowa, inwestycyjna i budżetowa:		
1) Gospodarka mieszkaniowa	77	77
2) Budownictwo mieszkaniowe	22	22
3) Urzędy wojewódzkie (m.in. urzędnicze biura dla budownictwa mieszkaniowego)	4	4
4) Ludność	77	77
a) budownictwo mieszkaniowe	22	22
b) budownictwo mieszkaniowe	22	22
c) remonty, budowa	1.4	1.4
5) Nauka, sztuka, kultura i zdrowie	1.3	1.3
6) Handel i turystyka	1.3	1.3
7) Komunikacja i transport	22	22
8) Przemysł i handlowo	22	22
9) Rolnictwo i leśnictwo	22	22
10) Ciepła energia i inwestycje	22	22
11) Fundusze celowe	12	12
12) Przemysł podstawowy	12	12
w tym:		
- energetyka	22	22
- przemysł	22	22
- budownictwo	11	11
- przemysł maszyn i urządzeń	1	1
13) Rezerwy	1	1

[Key]

- |  |  |
|--|--|
| (a) Description  | 4) Population  |
| (b) Amount of outlays for 1981 in billions of zlotys                       | a) housing construction of urban and rural population                            |
| (c) % index to size of outlays in 1980                                     | b) private agriculture   |
| (d) National economy   | c) crafts and trades, commerce   |
| (e) Socialized economy   | 5) Science, education, culture, health   |
| (f) Breakdown of above totals by ministry, administration, and area:       | 6) Trade and tourism   |
| 1) Municipal and housing economy   | 7) Transportation and communications   |
| 2) Plant housing construction  | 8) Market industry   |
| 3) Voivodship offices (such as, land development for housing construction) | 9) Socialized agriculture  |
|  | 10) Volunteer projects and investments from special-purpose funds                |
|  | 11) Basic industry, including:   |
|  | (g) power industry (h) mining (i) metallurgy (j) farm and heavy machine industry |
|  | 12) Reserves   |

for more than 6 years\* it would be necessary to allocate all the outlays for investment construction in the corresponding ministries for the continuation of investments already begun in order to complete them.

Nevertheless, in the long run it is difficult to accept totally giving up any new investments even in the areas which do not enjoy priority and preferential treatment. The actual period needed to complete investments in the four above-mentioned ministry groups would also extend to 7 or 8 years. These projections are not theoretical. They follow from the real commitment and the real structure of investments which have been begun in our country but not completed. This picture could change in the case of definitive discouragement of the continuation of certain investments which are being maintained.

The next problem difficult to resolve in the area of investment management is the matter of the administration of relatively high levels of machinery and equipment stock which has been accumulated. These levels occur mainly in industry, and their value amounts to about 50 billion zlotys. Of this amount two-thirds came from import purchases, including more than 40 percent from capitalist countries. There are two causes underlying the creation of these supplies: premature purchase and delays in the execution of a number of investments. Both causes are directly related to the above-mentioned investment overcommitment. Most of the machinery has been accumulated for a dozen and some relatively enormous investment projects. Hence, the possibility of using it depends directly on the possibility of continuing these investments and the conditions under which they are continued.

In the light of the situation presented and the limited investment possibilities, it is essential to monitor all the investments being carried out and to determine their future fate. In practical terms this pertains only to investments in the production sphere in the above-mentioned four ministry groups. We should not defer the decisionmaking in this regard, because this would be equivalent not only to continuing to realize a broad front of investments, the deconcentration of investment activity and a delay in the attainment of results from these undertakings, but would also mean wasted power and resources in those instances in which work would continue on those investments which would later be classified for interruption.

Theoretically approaching targets in this realm, it is justified to divide absolutely all investments into the following categories: those which should be held up, those whose execution should be restricted, those which should be allocated for other purposes, and, finally,

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\*This follows from the following calculation: 950 billion zlotys: 150 billion zlotys per year = 6.3 years

those which should be completed in the normal way. The categorization of investments and assignment to one of these groups must be based on investment outlay totals anticipated for the various ministries and must take into account the interests of the entire economy, including the ministries' cooperation relationships, something which is not always respected.

As everyone knows, only the possibilities for investment in 1981 are known. We still do not have the targets for the whole five-year plan, which are particularly important for investment activity, because this is activity which involves a number of years to carry out individual projects and tasks. Under these conditions it is essential to specify even very approximately the possibilities for investments beyond 1981. In the light of current conditions, it would seem that we should assume that in the various ministries they will be similar to 1981. This is an important assumption, because failure to recognize this could create hopes for greater possibilities to restore investments held up even in 1982, which assumption would seem unrealistic. The knowledge, on the other hand, of even the amounts of investment possibilities in 1982 and future years is essential for a realistic assessment of the situation and for the optimum, realistic classification of various continuing investments in the ministries.

In many instances the outlays established for 1981 are making it possible to carry out a relatively small number of investments begun in prior years, sometimes even an insignificant fraction. This occurs particularly in the ministries of what we call basic industry (item 11 in the table). This is also why it seems that in these ministries we should consider the situation in which all continued investments are interrupted and determine what outlays are needed to protect them properly. If the limit on outlays for investment construction set for the ministry exceeds the sum necessary to protect continuing investments, then their surplus could be reallocated to advantage first of all to those investments in which results can be gained the most quickly.

We can assume that the situation in 1982 will be somewhat more favorable, because outlays to protect the installations held up, which weigh heavily on the 1981 investment plan, will no longer be needed.

If the ministry's maneuvering room in administering the established size of outlays is greater, then the approach to the assessment and classification of initiated investments can be more flexible. The investments which are not very far along should be those classified for interruption first, and then if the need exists (owing to further limits on the outlays), then other investments further along can be discontinued.

In the case of interrupted investments, a number of organizational issues remain to be resolved and taken care of. Interrupted investments should be duly protected, which first of all requires an assessment of the scope of protecting work and also the allocation of appropriate outlays for this purpose. In these instances any possible placement of orders for machinery and equipment should be cancelled. Building materials accumulated on the building site should be directed to other construction projects or sold to the population, especially for private housing construction in the towns and for the rural population.

One of the ways anticipated for protecting interrupted construction assumes that equipment and the payroll fund related to overseeing the works on these construction sites represent amounts above and beyond those planned, but it would seem that in order to maintain economic and financial balance, certain reserves should be provided for this purpose in the state plans. Unplanned activity should not be activity left out of the balance sheet, because then this fact would contribute to a disruption of balance in the economy.\*

Similarly we take note of the concepts of covering possible outlays for the purchase of machinery and equipment for interrupted construction (if these purchases cannot be cancelled) and the costs of overseeing and safeguarding construction sites out of noninterest bank credit,\*\* and hold similar reservations in this regard.

Now we also bring up a remark concerning the practice of the past several years of using bank credit to finance so-called preparatory work for new investments. Many of these investments are presently without conditions for implementation and in reality are increasing the losses which the economy is suffering on account of the excessive number of investment decisions made. It should be added that the outlays for these purposes were not included in the investment plan, and the cost-estimate value of these investments is not included in the investment commitment total presented. Practically speaking, almost all these investments, for which only the preparatory work has been done, will have to be stopped.\*\*\*

\*Under present conditions, we should also discourage the practice of completing investments considered repairs, such as the Turun Route (Trasa Turunna) in Warsaw, high-speed arterials, and others.

\*\*This incorrectly reduces the social cost of interrupting the execution of investments. It would seem that this credit should bear interest and be part of the investment cost, which, as the result of interruption or deferral, for example, would increase on this account.

\*\*\*The National Bank of Poland should supply detailed information and conclusions on this subject.

Alongside the alternative of interrupting execution, often called for by the ministries, there is also the alternative of restricting the execution of the investment. This consists of allocating outlays lower than those required. It should be noted that such a practice would continue the disgraceful policy of "slowing up" investments and dispersing investment activity, as conducted during the past few years. This is a harmful practice aimed at tolerating and sanctioning delays in carrying out investments and reducing investment effectiveness. For each sixty investment, in this case lesser effects are obtained than in the case of proper subsidizing of the various investments being carried out, according to the notion of the well-known economically proved principle: carry out a small number of investments quickly, in order to obtain the results of them quickly.

The next alternative for resolving the problem of continued investments is the assessment of possibilities for assigning a given construction for purposes other than those originally planned. This alternative should be used especially in those instances where the investment is not very far along and when one already knows that the given ministry during the next few years will not be able to restore the corresponding investments. This solution is socially more beneficial than the definitive interruption of the investment. Initial findings show that this alternative can probably be applied in the case of certain installations whose execution has been interrupted. This applies, for example, to installations to back up construction, which can be adapted, for example, to ease the shortage of production area in the pharmaceutical industry.

First of all, investments which are furthest along and have a high level of effectiveness and those which are urgent from the viewpoint of reproduction agreements and the elimination of bottlenecks in the economy and in the various economic organizations should be categorized for completion in the normal manner, that is, in a concentrated way, with the proper subsidizing of outlays, because focusing outlays for these purposes can insure the greatest level of investment effectiveness given the current difficult conditions.

The government has specified which of the large investments (those with a value exceeding a billion slotys) should be held up under the current conditions. This applies to about 50 investments, mainly in so-called basic industry, and this includes even construction in power industry. In their own area the ministers carry out the task of interrupting investments in relation to a far larger number of investments whose unit value is less than a billion slotys. This applies to several hundred investment tasks altogether. Hence, this is a difficult task, and in many cases, particularly in the industrial ministries in which hundreds of tasks related to investment construction are carried out, it will be necessary to use the above-mentioned method of first of all assessing the effects of interrupting all the investments begun, which also means those which have been selected by the government and those others which fall within the ministry's jurisdiction.



The above-mentioned government decisions, alongside the selection of large investments to be interrupted, also include instructions concerning the maintaining of a number of economically important large investment projects in the plan, especially those whose value exceeds a billion zlotys. Practically, therefore, the ministries have the task of optimal distribution of the total outlays established for them, after taking out the outlays needed to continue the large investments which the government has earmarked to be continued.

For clarity we can present the following general outline for proceeding in the ministries, with the goal of ultimately specifying the content of the investment plan for 1981. Within the framework of the overall limit of outlays set for the ministry for investment construction, a division should be made into the following:

- 1) necessary outlays to continue the large investments as decided by the government,
- 2) necessary outlays to interrupt and protect: a) large investments designated by the government (over a billion zlotys), b) other investments (under a billion zlotys),
- 3) the remainder, which will make it possible to continue some investments from the group specified in 2b), and in this case there are still available those outlays which would be essential to interrupt and protect those investments.

We can use the example of a few ministries to show the difficulty of the situation and the possibility of proper administration of the limit on outlays for investment construction set for 1981.

The investment construction needs of the ministry of engineering industry were approximated at about 19 billion zlotys in July of last year, at 12 billion in October, as the result of the necessary restrictions, which would permit the continuation of about 150 investments which had been begun in the ministry and were being carried out, including about 50 which would be completed in 1981. The limit on outlays for investment construction of this ministry was set at about 4.9 billion zlotys. The experience of 1980, in which the work on more than 60 investments had already been interrupted, permits the estimate that the amount of outlays obtained is basically adequate to cover the costs of interrupting the completion of many investments, with the exception, for example, of three large investments, whose further completion has been recommended by the government. This will be further confirmed by a detailed calculation of the costs of interrupting and safeguarding the rest of the construction sites. Within this ministry there is no possibility of continuing even those investment tasks which could have been completed in 1981. Nor is there the possibility of managing the supply of machinery and equipment, and given the projected difficulties with cancelling contracts and orders already placed, we should count on an increase in this supply.

In the ministry of construction and building materials industry, there are about 450 investments being continued for the ministry's own needs. Given the limit on outlays as set for 1981, it would take about 10 years to complete them. About 5 billion slotys of outlays would be needed for the investments which could be completed in this ministry in 1981. The overall limit for the ministry, however, was set at 4 billion slotys. This is about 50 percent of the 1980 level. In metallurgy and the heavy machinery and farm machine industry the outlays for 1981 are still lower.

These examples are an eloquent illustration of the results of the investment decisions undertaken during the past few years which have not been covered with possibilities for executing them.

On the other hand, is there the possibility of improving this situation and insuring at least the outlays necessary for the investments which can be completed in 1981? Such a possibility would exist if outlays were reduced in other sectors and branches of the economy, but in view of the currently essential priorities in investment policy, as we have presented them, this is practically unrealistic. Practically speaking, corrections in outlays for the various sectors and branches of the economy cannot be significant.

We should also turn our attention to the tensions caused by the shortage of reserve outlays in the 1981 investment plan. In the probably reduced profile of outlays for volunteer projects, and in housing construction outlays set too low to meet needs. As one reads the indices of the rates given in the table for the outlays for housing construction, he should keep in mind that the tasks of the plan for this construction in 1980 were carried out to only about 60-70 percent of the target. In practical terms this means that in this sector too there is a lack of growth in outlays, which would bring the supply of housing closer to the needs and would reduce the average waiting time for a housing assignment. The need to reduce in 1981 the overall size of investment outlays, particularly in the socialized economy (by about 15 percent) will therefore still not make it possible this year to approach the realization of the socially important goals set for investment policy in the next few years.

The results evoked by the events and decisions of the latter half of 1980, including, for example, the reduction in the extraction of coal, are creating difficulties in the proper balancing of the investment construction plan and making it impossible to take full advantage of existing production capacity in the building materials industry. It is projected that the production capacity of the cement industry in 1981 will be utilized to the extent of about 71 percent, while the percentage of production capacity utilized in other areas will be as follows: 81 percent in the realm of roofing paper production, about 56 percent for steel construction components, and about 70-80 percent for plastic goods for construction needs.

The possible decision to give up exporting cement entirely does not fully resolve the situation either, because in 1981 cement deliveries will be about 12 percent lower than the previous year. The shortage of rolled products is estimated at 70,000 tons at least, while the sawn lumber shortage amounts to 40,000 cubic meters, and the plastics shortage approximates 8 percent.

Hence, even the relatively low investment construction plan for 1981 is not entirely balanced. This requires above all the management of appropriate reserves and supplies, including those coming from the halted construction sites, and calls for greater thrift in the consumption of materials. For example, it is estimated that cement consumption exceeds norms by about 20 percent. If these losses were reduced by half, then the shortage of cement we are experiencing would disappear.

Alongside deliveries of materials, one of the major factors to insure the accomplishment of plan tasks is the contracting potential of the construction and installation enterprises. The envisaged size of construction and installation work on behalf of the investment plan in 1981 is subject to a reduction of about 11 percent in the socialized economy, but it is increasing in part on behalf of the nonsocialized economy (by about 14 percent). Alongside this, a certain rise is projected for work outside the investment plan, mainly for repairs (about 4 percent). On balance, however, construction and installation output will decline by about 5 percent.

It could seem that this would ease the tensions brought on by a shortage of contracting potential, therefore, especially in housing and social construction. On the other hand, this is not entirely certain, because alongside the above-mentioned shortages of materials, the structure of work is subject to change. Therefore, everything depends on adapting the construction potential to the structure of investment work in 1981.

It is estimated that the potential of the ministry of construction and building materials industry on behalf of investments, which amounts to not much over 130 billion zlotys, will be used for the needs of about 100 billion zlotys' worth of construction for housing, social, and local plan needs, which means that only somewhat over 30 billion zlotys can be allocated for investments in the production sphere. This shows the need in 1981 to increase general construction potential by about 10 billion zlotys, including acceleration of land development for housing construction, and at the same time the need to limit the potential of the industrial construction enterprises by about 15 billion zlotys compared to 1980. This is a difficult task and has a host of organizational and economic consequences, because usually the production technologies are different in industrial construction and housing construction. Industrial construction makes a profit, but housing construction shows a loss, which correspondingly impacts the economic technical indices and the payroll fund of the enterprises.

All these problems, along with the new decisions on wage increases in the construction industry, require review and proper steering to achieve the intended goal.

In the new situation, which is a breakthrough and extremely difficult for the construction industry, a situation stemming from the structure of the investment plan for 1981, much depends on an understanding of the tasks which construction workers face and on the effort put into carrying them out. Much also depends on the attitudes of investors, who should give up the pressures applied in the past to carry out a large number of investments simultaneously and also to carry out investments not included in the plan.\* Much too depends on the construction industry and associations, particularly in the realm of structural and organizational tasks.

Here it should be remembered that the shift in the potential of industrial construction in favor of general construction is not merely a need of the year 1981. This need has already existed for several years and will also appear in the decade of the 1980's. The execution of this maneuver will determine whether or not it will be possible to increase the rate of housing construction in years to come, which is so desired in the practical realm of our country's socioeconomic development in the years to come.

The year 1981 is to be of monumental importance to investment construction, mainly as the result of the need to interrupt and safeguard a number of construction investments, as well as the need to adapt the structure of contracting potential to the new investment structure, particularly the above-mentioned increase in housing construction. The plans for housing construction tasks should not be reduced during the year, and it is all the more important that we not fail to carry out these reduced plans. The most significant task which we must accomplish in the policy of steering the construction industry is to become aware of this fact and to get beyond mere words which do not coincide with actions.

Against the backdrop of the above-mentioned structure of investment outlays in the 1981 plan, a number of further comments and reflections arise, but here we can discuss only a few of them.

First of all we should point out that understanding of the country's current situation and the economy's investment capabilities should be general and complete. We must not cultivate illusions concerning the possibilities for developing a new investment "boom" after a short time. Such a conception, particularly in view of the need to inculcate the above-mentioned structural changes, should probably be rejected for the

\*As of 30 September 1980 the banks said there were 53 investments being executed illegally, with a value of over 2 billion zlotys. Each quarter the banks present similar information.



entire decade of the 1980's. Therefore, it is not possible to wage a dual policy, on the one hand interrupting investments and on the other, producing capital goods which cannot be purchased by investors,\* or ordering documentation and machinery and equipment for investments prematurely, or for those investments which have not chance of being built at all.\*\*

The 1981 plan, which is for a year beginning a new stage in Poland's socio-economic development policy, is atypical, it is true, particularly in view of the need to interrupt many investments, but it is not atypical to the extent claimed by those who delude themselves about returning to an investment climate going for a year at a time or a few years, with some even talking about the latter half of 1981. It is true that the burden to secure interrupted investments should not be repeated after 1981, but the greater flexibility which should be a feature of the plan for coming years in this connection is essential to the execution of the above-mentioned structural tasks. Following the acceleration of housing construction, we shall face similar goals in the social sphere (hospitals, preschools, nurseries) and tasks for the acceleration of the investment rate in agriculture, the food industry, services, and commerce. Hence, we are facing a lot of "lean" years for the construction industry in the other production sphere, especially in so-called basic industry. Starting with 1982 we can anticipate the possible reactivation of the execution of certain interrupted investments. It is only to the extent that investments are completed that it will be possible to carry out the rest of the investments on a broader scale, but it will probably not be until the latter half of the 1980's that we will be able to get through the list of investments waiting to be reactivated.

Despite the fact that the 1981 investment plan is lower than the 1980 plan, it is still very tight. This follows not only from the large number of interrupted investments and the fact that the plan is not completely balanced, as has already been discussed, but also from the lack of sufficient reserves of outlays. The reserve is only 1 billion zlotys, and has been assigned to the market investments, in the plan. Initially larger outlays were projected for this purpose, but the urgency of the needs of continuing investments and the restricted total size of investments made it impossible to increase them, and they would be needed not only for this purpose but also for other unexpected goals and needs which could appear in 1981.

\*During the past few years there has been a surplus in the production of capital goods (machinery and equipment) over the outlays established for investors for this purpose. The phenomenon was also repeated in 1980.

\*\*The banks and other control bodies report such instances and phenomena.



## Commitment, Freezing of Investments

Warsaw GOSPODARKA PLANOWA in Polish No 1, Jan 81 pp 25-29

[Article by Jan Maciejak: "Freezing and Commitment of Investments in the Sphere of Material Production"]

[Text] The most important of all the errors committed in the 1970's in economic policy concern investment policy (if we can even say that there was one), and because investment policy shapes future production programs and determines future raw-materials, energy, and transport needs and the demand for labor, it determines the future level of the satisfaction of the needs of the society and the country's place in the world.

Owing to the broad interest in investment problems and the absence of an appropriate way of informing the society concerning the existing situation, it would seem useful to present basic information on the subject of the commitment and freezing of investments in our country.

There was an analysis of total continued investments in the socialized economy along with the investments of the voivodship offices, unions of labor cooperatives, agrarian circles, the handicrafts, and social, cultural, and sports organizations. Nevertheless, special emphasis will be placed on production investment in all sectors of the national economy.

The aggregate of production investment includes about 5,900 tasks with a total cost-estimate value (given by the ministries) of about 1.7 trillion zlotys.

They are broken down by type as follows:

--investments continued in the sphere of material production, exceeding a cost-estimate value of 50 million zlotys, henceforth called unit investments. There are more than 1,600 of them altogether, and their total cost-estimate value (given by the ministries) approximate 1.4 trillion zlotys.

--investments continued in the sphere of material production, with a cost-estimate value of under 50 million zlotys, henceforth called aggregate investments. There are more than 3,900 of them, and their total cost-estimate value (given by the ministries) is about 150 billion zlotys.

--investments which the ministries have asked to begin during the first few years of the next five-year period as complementary investments for investments already being continued. Henceforth these will be called complementary investments. There are about 350 of these investments on the list, and their cost-estimate value is 180 billion zlotys.

The analysis is based on data from sections of the Polish National Bank (INBANK System) and from investors transmitted via the ministries as the result of following directive No 11 of the Chairman of the Planning Commission (INKOM SYSTEM).\*

Nearly 10,000 investment tasks, with a cost-estimate value of about 1.75 trillion zlotys, were continued among the investments included in the analysis within the socialized economy, and their freezing (calculated here as outlays incurred by the end of 1979 and anticipated for 1980) approximated 800 billion zlotys. The continuation of these investments would require the expenditure of about 950 billion zlotys, if the cost-estimates were not overrun, and about 386 billion zlotys of this would be in 1981, including 236 billion zlotys (61 percent) for construction and installation. The fundamental share of these outlays falls in the sphere of material production.

Table 1 contains information on the share of total investments represented by these investments.

#### Analysis of Commitment and Freezing of Investments in the Sphere of Material Production

In the sphere of material production, the number of tasks approximates 5,900, with a total cost-estimate value of about 1.75 trillion zlotys. Among them, 5,550 investments with a cost-estimate value exceeding 1.55 trillion zlotys are being continued. Their freezing amounts to 710 billion zlotys, including about 850 billion zlotys in 1981-1985. The ministries proposed the following distribution of outlays over time (see Table 2).

Table 2. Distribution of Outlays for Continuing Production Investments in 1981-1985 (billions of zlotys)

Total commitment	1981	1982	1983	1984	1985	after 1985
879	360	247	136	74	36	26

\*This system was developed by the Government Information Center using the past contributions of the INPLAN system. The figures in the analysis do not include these investments: a) those which ministries expect to complete in 1980, b) housing construction and related investments done by CZSBM, c) minor investments which could be allowed over and above outlays set in the National Socioeconomic Plan out of social funds, resources, d) quick-return modernization ventures, e) those carried out under the auspices of the volunteer projects of the population.

Table 1. Basic Information on the Size of Investment Outlay Commitment and Freezing of Investments in the Socialized Economy

(1)	(a) Wykazanie	(b) Źródło informacji	(c) Liczba przedsiębiorstw	(d) Wzrost kosztów	(e) Przewidywane wydatki na 31.12.1980		(f) Nakłady przewidziane do pomiarów w		(g) Zaangażowanie po 1985	
					(h) mld zł	(i) mld zł	1981	1981-1985		
(1)	Zadania kontynuowane ogółem w gospodarce uspołecznionej	INBANK	9986	1740,2 <sup>a</sup> 992,8	797,3 460,6	386,2 236,0				
(2)	Zadania kontynuowane planu centralnego i opóźnionego	INBANK	7768	1562,4 853,9	728,8 404,7	335,2 197,1				
(3)	Zadania kontynuowane w okresie produkcji materiałnej	INKOM	5550 <sup>b</sup>	1508,7 832,9	709,6 379,0	358,6 202,9	849,8 450,3	26,0 12,6		
(4)	Inwestycje kontynuowane ogółem o wartości powyżej 50 mln zł	INBANK	1820 <sup>c</sup>	1637,6 903,1	749,1 420,9	334,6 194,6				
(5)	Inwestycje kontynuowane o wartości powyżej 50 mln zł w okresie produkcji materiałnej	INKOM	1612	1602,2 729,0	650,0 329,8	300,3 156,2	257,9 306,1	26,0 12,6		
(6)	Inwestycje o wartości poniżej 50 mln zł w okresie produkcji materiałnej	INKOM	3938 <sup>d</sup>	143,5 103,9	51,6 40,1	17,4 11,9	91,9 63,8	0 0		
(7)	Inwestycje kontynuowane o wartości powyżej 50 mln zł w przemyśle	INKOM	1025	1187,4 551,9	346,1 250,0	247,6 122,5	625,1 295,7	13,9 6,2		
(8)	Inwestycje urządzeń wojewódzkich	INBANK	2216	185,8 130,9	60,6 55,0	51,1 38,8				

<sup>a</sup> Liczby w dolnym wierszu dotyczą nakładów na roboty budowlano-montażowe -- Figures in lower line apply to outlays for construction and installation  
<sup>b</sup> Skrajność (1980-1981) 1000000  
<sup>c</sup> Skrajność (1981-1.12) 1000000  
<sup>d</sup> Skrajność (1980-1981) 1000000

<sup>a</sup> Liczby w dolnym wierszu dotyczą nakładów na roboty budowlano-montażowe. --- Figures in lower line apply to outlays for construction and installation

<sup>b</sup> Średnia (1980-1985) 1011  
<sup>c</sup> Średnia (1981-1985) 1011  
<sup>d</sup> Średnia (1980-1985) 1011

[For key see next page]

[Key to Table 1]

- (a) Description
  - (b) Source of information
  - (c) Number of continued tasks
  - (d) Cost-estimate value
  - (e) Projected fulfillment to 31 December 1980
  - (f) Outlays envisaged to be borne in these years:
  - (g) Commitment after 1985
  - (h) Billions of zlotys
- 
- (1) Total tasks continued in the socialized economy
  - (2) Continued tasks of the central and cooperative plan
  - (3) Continued tasks in the realm of material production
  - (4) Total continued investments with a value of more than 50 million zlotys
  - (5) Continued investments with a value of more than 50 million zlotys in the sphere of material production
  - (6) Investments with a value of under 50 million zlotys in the sphere of material production
  - (7) Continued investments with a value of more than 50 million zlotys in industry
  - (8) Investments of voivodship offices and administrations

Additionally, the ministries are asking to begin about 350 tasks with a cost-estimate value of about 180 billion zlotys during the new few years. These investments are treated as complementary to those already being continued. The time distribution of the outlays asked for for complementary investments is presented in Table 3.

Table 3. Distribution of Outlays for Complementary Investments Being Requested for 1981-1985 (in billions of zlotys)

1981	1982	1983	1984	1985	after 1985
18	44	53	33	14	12

The ministries have asked for total outlays for production investments in 1981 to be about 380 billion zlotys, and in 1982, about 300 billion zlotys. The requested size of outlays will probably be twice as great as the economy's possibilities in these years. At the same time it is the basic reason for the change in the investment program, especially for the need to limit it soon.

Among the 5,550 continuing investments in the material production sphere, the investments with a unit value over 50 million zlotys account for more than 1,600 investments representing 92 percent of the total cost-estimate value. The mean cost-estimate value of each of them approximates 900 million zlotys. The remaining 3,900 and some investments with unit outlays of less than 50 million zlotys account for 144 billion or about 36 million zlotys each. Therefore, on the average these are not minor investments.

Table 4 contains a detailed breakdown of continued production investments with a unit value of less than 50 million zlotys.

Table 4 shows the great concentration of outlays in the group of continued production investments with a unit value of over 50 million zlotys. The first five investments\* represent 0.3 percent of the total number but account for 186 billion zlotys, or 13 percent of the total cost-estimate value of this group of investments, and the 24 largest investments, which represent 1.5 percent of the total number, account for about 30 percent of all outlays.

It is useful here to point out two aspects:

First, the investment policy's concentration on large investments,

\*These are the following: electric plant in Belchatow, mine in Rogowice, construction of an electric plant in Brzezic, construction of a hot-rolling sheet metal mill at the Katowice Mill, and a tractor factory in Ursus.



Table 4. Distribution of Production Investments With Cost-Estimate Values Over 50 Million Zlotys Broken Down by Size of Unit Outlays

(a) Wartosc kosztorysow poszczegolnych inwestycji (w mld zl)	(b) Liczba za- dani inwe- stycyjnych	(c) Udzial % w calkowitych kosztach inwestycyj- nych w danym przedziale wartosci -- powyzej (w mld zl)	(d) Suma nakladow wzrostu kosztorysow w danym przedziale (w mld zl)	(e) Udzial % w calkowitych wartosciach inwestycyj- nych w danym przedziale wartosci -- po- wyzej 50 mld zl	(f) Wielkosc zestawienia w mld zl
over 20	5	0.3	186	13	67
10-20	19	1.3	251	17	128
5-10	32	2.0	216	15	106
4-5	19	1.2	87	6	44
3-4	20	1.2	69	5	36
2-3	42	2.6	100	7	44
1-2	121	7.5	169	12	75
under 1	1354	84.9	364	25	168
Total Razem	1612	100.0	1642	100	658

[Key]

- (a) Cost-estimate value of individual investments (in billions of zlotys)  
 (b) Number of investment tasks  
 (c) Percentage of total number of production investments which are continued and are over 50 billion zlotys  
 (d) Total outlays by cost-estimates in a given allocation (in billions of zlotys)  
 (e) Percentage of total value of production investments continued -- over 50 billion zlotys  
 (f) Size frozen in billions of zlotys

Second, the absence of small production investments leading to the creation of small production plants, without which large plants cannot operate effectively.\*

The completion of the investment program which is being carried out would make the existing situation still worse in this respect, and alongside the need to cut the program in half, this is one of the most important reasons underlying the need to revise the current investment program.

The decided majority of production investments are concentrated in industry. Besides this sector, about 500 tasks with a total value of about 250 billion zlotys have been begun, and house factories account for 64 of the tasks, with a cost-estimate value of 30 billion zlotys.

In industry, more than 1,000 tasks have been begun with a cost-estimate value of about 1.2 trillion zlotys. It is worth emphasizing that a whole 370 (36 percent) of the tasks with a cost-estimate value of about 220 billion zlotys (19 percent) carried out in industry will not provide production effects in 1981-1985 and only five of them, with a cost-estimate value of 21 billion zlotys, will supposedly produce effects after 1985. Most of them are essential, because they concern the complementary infrastructure for plants which are already in operation (waste-treatment plants, for example), but they do not increase production in and of themselves. This is one of the important reasons for the low economic effectiveness of the investments currently being carried out, one evoked by the "policy" of the ministries and economic organization, a policy to force unplanned resources without showing concern for essential investments.

It is also worth pointing out that in various ministries a "program" which has never been formulated is being carried out to build 52 thermal electric power plants valued in the cost estimates at about 43 billion zlotys. On the other hand, there is no uniform program for carrying out these investments, or especially for the possibilities of producing the necessary capital goods to equip them.

Another "program" which is being carried out will, upon completion, bring about great imports intensiveness from the II payments area and large exports to I payments area (the value of exports to this area exceeds 28 percent of production). This program consists of 15 tasks with a cost-estimate value of about 21 billion zlotys, 7 billion zlotys of which will be imports from II payments area.

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\*In 1975 the enterprises which employed fewer than 100 persons represented about 86 percent of the total number in the FRG but only about 11 percent in Poland. In the FRG they employed about 20 percent of all employees, but only 0.7 percent in Poland. (B. Brocka-Palacz: "A Comparison of Economic Structures With International Breakdown," GOSPODARKA PLANOWA, No 9, 1978.)

It should emphasize the fact that a substantial share of investments are characterized by work not very far along, which may make it easier to interrupt them or make a reallocation. The number of continued investments for which outlays incurred up until now are less than 10 percent of the cost-estimate value approximates 250, but their cost-estimate value exceed 300 billion roubles, nearly 100 billion roubles of which is to purchase machinery and equipment, including more than 60 billion roubles from II payments area. The number of continued investments for which outlays were made in the past represents not more than 5 percent of the cost-estimate value, totaling 187 investments for a cost-estimate value of 224 billion roubles.

One thing making it easier to limit the labor front is the fact that the cost-estimate value of 16 major investments, freezing less than 25 percent, is a whole 180 billion roubles, or 20 percent of the total cost-estimate value of continued production investments (with a unit value of more than 50 million roubles). Up until now 32 billion roubles has been spent on them, which is 11 percent of all outlays, 2.9 billion roubles in circulation, or about 200 million foreign-exchange roubles, having been spent on imports from II payments area (including the amount projected for the latter half of 1980).

Data concerning the distribution of outlays over time are interesting. Out of a total of about 1.7 trillion roubles projected by cost estimates, the ministries intended to spend more than 700 billion roubles by the end of 1980, which is 40 percent, including about 270 billion roubles to purchase machinery and equipment, which represented 43 percent of the value envisaged in the cost estimates. During this period, imports from II payments area are to amount to 120 billion roubles, or a whole 15 percent of the value envisaged in the cost estimates. This is the result of the premature accumulation of machinery and equipment.

The regional breakdown of investments shows a great concentration of continued production investments with a value of more than 50 billion roubles in the Krasnoye Voivodship. It accounts for about 140 billion roubles of the total amount for these group of outlays. On the average there are investments which are not very far along (about 55 percent). The list of the most free voivodships with the largest investment includes 14 in all: Tashkent City of Soviets with 100 billion roubles, Krasnoye Voivodship with 100 billion roubles, Ufa Voivodship with 61 billion roubles, Ufa Voivodship with 51 billion roubles, and Khabarovsk Voivodship with 50 billion roubles. One also notes the small size of investments within certain well-known industrial centers. Like Leningrad Voivodship (25 billion roubles), Volgograd Voivodship (14 billion roubles), Krasnoye Voivodship (13 billion roubles), and Permian Voivodship (10 billion roubles).

This great imbalance in investment outlays by voivodship is made still worse by the fact that the voivodship administrations' share of outlays for investments they execute also varies from one voivodship to another. There are outlays designated largely for the construction of hospitals, schools, and installations for cultural and sports-recreational purposes and for the infrastructure of construction, but while the total value of these investments exceed 180 billion zlotys, the Katowice Voivodship receives 36 billion zlotys (19 percent). In Katowice Voivodship this amounts to 9,800 zlotys per capita, compared to about 2,200 zlotys in the voivodships of Gdansk, Skierniewice, Tarnobrzeg, and Slupsk.

The time it takes to complete investments is a separate matter. On the average it is very long. The completion time of exactly 105 investments among about 1,600 exceeds 7 years, and a substantial portion of these are modernization investments. For example, the "modernization" of the air treatment system at Jaworzno II electric plant has now been in progress for more than 15 years already, and about 44 percent of the total outlays have been accounted for up to the present time. The modernization of the refrigeration plant in Debica has been going on still longer (they are about 35 percent of the way along). More than 7 years on far have been spent on the construction of a technical progress innovation center, on the renovation of the fixed assets for production in the footwear plants (in Chelmek), the construction of a repair plant (in Cieladz), and in a substantial proportion of processing plants. If we also take into account the fact that for many investments the time between approval by STE and the beginning of construction amounts to years, the technical and technological level of the new products must cause us some concern.

#### Analysis of the Effectiveness of Continued and Complementary Production Investments

The first conclusion of the analysis of available information is the low economic effectiveness of the production investments being continued and recognized by the ministries as being complementary.

It is true that the balance of payments with II payments area in 1981-1985 is in the black and amounts to 3 billion zlotys (207 million foreign exchange zlotys), but this is to occur by way of improvement during the last 2 years of the five-year period (this is particularly obvious in metallurgy). In 1981-1985 total investment and coproduction imports from II payments area are to make up all of 98 percent of the exports to this area during the same period, but the share of exports to this area is to represent only 9.7 percent of the total value of future production. After the year 1985, coproduction imports from II payments area are to approximate 23 percent of exports to countries of this area (there are foundations for the belief that this size is lowered). It is still worthwhile to emphasize that an extremely low (about 35 percent) share is projected for the total outlays accounted for by machinery and equipment, and a whole 41 percent is to come from II-area imports, with only

a little less than 9 percent coming from I payments area (about 50 percent is to be provided by domestic deliveries). The effectiveness of investments already being continued does not vary essentially from that of complementary investments, except that the latter are responsible for a 26-billion zloty deterioration in the balance of payments with area II.

Despite many declarations about the economic maneuver and the need to improve effectiveness, investments begun during the past few years and those proposed by the ministries are less export-oriented and effective than those initiated earlier. Their completion will not help the present situation.

In industry the following phenomena take our attention (we are talking about investments with a unit value over 50 billion zlotys):

First, great capital intensiveness, 2.27 zlotys of outlays per zloty of annual production.

Second, machinery and equipment account for a small proportion of outlays, about 42 percent.

Third, II payments area imports account for a large share of the total machinery and equipment purchased (45 percent).

Fourth, machinery and equipment imported from I payments area account for a small proportion of total purchases (9.1 percent).

There are great differences in the indicators which characterize the effectiveness of investments from one ministry to another. In the group of continued investments with cost-estimate values over 50 million zlotys, we note the exceptionally high capital intensiveness of investments, which amounts to 11.2 zlotys/zloty in the Ministry of Power Industry and Atomic Energy, 8.8 zlotys/zloty in the Ministry of Mining, 5.7 zlotys/zloty in the Ministry of Metallurgy, and between 1 and 1.2 zlotys/zloty in the Ministry of Heavy and Agricultural Machine Industry, Ministry of Engineering Industry, Ministry of Food Industry and Purchases, and the Ministry of Light Industry. For the Ministry of Chemical Industry this index is 2.6, which is a low index for this sort of production.

From the viewpoint of the balance of payments with II payments area, in 1981-1985 the situation in the Ministry of Metallurgy is the worst (minus 20 billion zlotys), followed by the Ministry of Power Industry and Atomic Energy (minus 5.6 billion zlotys) and the Ministry of Light Industry (minus 4.9 billion zlotys), compared to the best situation, which is in the Ministry of Chemical Industry (plus 28 billion zlotys) and the Ministry of Engineering Industry (25 billion zlotys). During the same period reproduction and investment imports from II payments area are to make up 13 percent of the exports to that area in the



Ministry of Metallurgy, 24 percent in the Ministry of Chemical Industry, 39 percent in the Ministry of Engineering Industry, 69 percent in the Ministry of Heavy and Farm Machine Industry, 294 percent in the Ministry of Metallurgy, and 480 percent in the Ministry of Light Industry.

The share of total outlays devoted to machinery and equipment is disturbingly low in the Ministry of Food Industry and Purchases (35.2 percent), Ministry of Metallurgy (36.8 percent), and Ministry of Light Industry (44 percent). It is also low in the Ministry of Engineering Industry (55 percent) and the Ministry of Heavy and Farm Machine Industry (58 percent), if we take into account the nature of the industries found under these ministries. The main source of the supply of machinery and equipment for the Ministry of Metallurgy (39 percent), Ministry of Food Industry and Purchases (31 percent), Ministry of Heavy and Farm Machine Industry (36 percent), Ministry of Engineering Industry (65 percent), and Ministry of Chemical Industry (69 percent) is to be countries of II payments area. Deliveries from the countries in I payments area represent a small share of the necessary machinery and equipment. Even in metallurgy this percentage does not exceed 15 percent, and in the Ministry of Engineering Industry, 7 percent.

#### Conclusions

a) All the investments reviewed have high individual effectiveness, but overall they provide a program which is socially ineffective to a great extent. The investment program being carried out in the country in the realm of material production (including the complementary investments in the program envisaged by the ministries) is not consistent either with the targets of social policy or the targets of economic macroeconomics.

First of all, the continued investments feature the above-mentioned low proexport rate to II payments area (less than 10 percent of total sales) and a low share of total production devoted to market-oriented industrial production (about 27 percent)\*. This latter index is lower than the current one.

\*This index was obtained after correcting the data transmitted by the ministries, which included the value of the production of artificial fertilizers and cementworks, farm machinery (including Ursus), electric power plants, and mines constructed as part of market production. Before the correction, the total of sales (from continued, unit industrial investments) in 1981-1985 amounted to 520 billion zlotys; after the correction, 371 billion zlotys (a difference of 145 billion zlotys, or 28 percent of the uncorrected value). The annual value of these investments after 1985 without correction is 191 billion zlotys, and after correction, 135 billion zlotys (a difference of 56 billion zlotys).

The proportion of investments helping to improve the effectiveness of management of raw materials and energy is low, that is, the proportion of investments helping to prepare secondary raw materials, to save fuel in heating facilities, to purify coal from rock, to produce light-weight construction and ceramic materials, and to produce insulating materials and regulatory equipment. It is well known that a third great furnace is being built at the Katowice Mill and that its raw materials part is being expanded, but the ministry is not undertaking investments leading to a better use of steel scrap (equipment for the scrapping of ships, for particle pressing, for pressing small tailings, and so on, for example).

The program leading to a deepening of the processing of raw materials and agricultural products, which would insure that they are better utilized, is also poor. Nor are there investments leading to an enrichment of the list of food products. Just about all of them focus on meat and milk. The list of major future producers of market items is a program typical of the developing countries in the early stages of development. These investments are not contributing to changes in the food structure in the 1980's. Postulates in this sphere have not been reflected in the investment policy.

The list of future major exporters is exceptionally poor, especially to the payments area. There is no trace of the demands for our industry's involvement in international specialization in the investment policy. The list of proexport investments is dominated by agricultural investments and the sectors producing raw materials and semifinished products. There is not a single proexport investment in the industries considered the most modern (electronics, bioengineering, automation, information science, and the like). This again is a program similar to that carried out in the developing countries. The implementation of the investment program which has been begun and is being proposed will not contribute to an improvement in Poland's balance of payments, nor to its assumption of a favorable place in the international division of labor (the investment program being carried out determines our production program in the 1980's and 1990's).

Despite the existence of programs to deepen economic integration with the socialist countries and especially to expand the industrial co-production, the share of investment deliveries from the payments area is disturbingly low, and this situation cannot be justified by the difference in the technical level of the two groups.

11. The ministries are still waging the old, well-tested strategy of giving priority in the investment plan to the least effective investments, which are of low social utility, and the promise of "golden apples" for additional funds, and also to forcing policy with false promises of funds for accompanying investments.

c) Investments being continued or proposed in metallurgy need further illumination. First of all we should show the need for a large scale of investment. The cost-estimate value of investments approximates 270 billion zlotys including LHS, but excluding outlays in coking plants and other branches of industry. Although they pertain largely to the initial phases of processing, to which the equipment produced is on a good level in the USSR, imports from II payments area in 1981-1983 are to amount to 21 billion zlotys, with only 7 billion coming from the first area. The unfavorable balance of payments with II payments area in 1982 is to amount to 79 million foreign exchange zlotys, increasing to 148 million zlotys the next year, but in 1984 it is to shift to a favorable balance of 137 million foreign exchange zlotys. Exports in that year would increase from 10 million foreign exchange zlotys to 315. In the material structure, the share of outlays for the infrastructure and auxiliary installations is large, but the share of outlays for installations turning out end products is low.

#### Review of Policy, Priorities

Warsaw ZOLNIERZ WOLNOSCI in Polish 26 Mar 81 p 4

[Article by Stanislaw Lewicki: "New Look at Investments; On the Draft of the Economic Reform"]

[Text] A very important cause of the current crisis in the economy has been the investment front, which has been spread too thin and poorly organized. Efforts were made to remedy this during the latter half of the 1970's, when the concept of the so-called economic maneuver was launched. There was not consistent, rational approach to the problem, and this fact condemned these efforts to failure.

Now that we face the absolute necessity of reforming the national economy, we are forced to revise our investment policy completely. In practice this will mean slowing up many investment projects and concentrating on those installations which are of particular importance to the future of the economy and the society.

The decision to give up the completion of certain investments is a complicated one which will have many different important effects. In the light of the decline in national income in 1979-1980 and the grave upset in the foreign balance of payments, decisions to freeze many investments are absolutely essential. Last year only 40 percent of the installations which were to have been put into operation were completed. There was 800 billion zlotys tied up in unfinished investments. Unutilized industrial machinery and equipment with a value on the order of 36 billion zlotys has been sitting for some time in the storehouses. It would take 1.3 trillion zlotys to complete the construction of investment installations in progress. In the present situation, we cannot afford such financial and material outlays.

This year a reduction will therefore be made on expenditures for investments averaging 90 billion zlotys. The decisionmakers immediately face the difficult issue of selecting investment tasks. We know already today that housing construction and social and municipal construction will retain their priority and even gain a better grip on it. Nonetheless, there are the urgent needs of extractive industry, agricultural food processing, and, more broadly, the whole food complex, as well as power industry. It was initially envisaged that about 48 billion zlotys would be allocated for energy investments. Meanwhile, the necessity of reducing total outlays for 1981 meant that power industry would receive only 27 billion zlotys for that purpose.

The conversion in investment policy is an essential step, but it will certainly be painful too. The experts estimate that investment outlays during this five-year period will remain at a level 10 percent lower than the funds invested in 1980. On the threshold of a great economic reform, we must realize clearly that these limitations will have an impact on the country's future development even beyond the year 2000. It is therefore the main task of reformed investment policy to soften the adverse effects of today's measures of thrift.

There is no way to define at a given moment the consequences of the forced slowing of investments for the individual sectors of the national economy. Here the actions head mainly in the direction of setting the investment front in order. We know today that certain investment tasks based on the purchase of licenses were mistaken to say the least. Current in-depth analysis has shown that one could exercise far more favorable licensing options. We were also too hasty in giving up the considerations acknowledging the achievements of Polish scientific and technical thought, but the undertaking of investments on the basis of not entirely fortunate licensing agreements with II payments area partners committed enormous financial resources. A separate issue is the lazy way that many licensing partners discharged their obligations to supply technical and technological documentation and professional oversight and personnel for consultation. Such instances were noted in the food industry and the paper and cellulose industry, for example.

#### What Will the Reform Bring?

The extensive list of these shortcomings and defects in this way was responsible for the fact that there was an excessive increase in the cost-estimates of investment work, investment cycles became longer, and there were delays in reaching full production capacity. This state of affairs as it were impacted other negative phenomena in our socio-economic life. All of this together led to the current acceleration of crisis tensions. Well-thought out, considered reform actions can be introduced to bring about the mastery of a difficult situation in 2-3 years. The rationalization of investment policy is one of the elements of this constructive action.



The basic assumptions of the reform activity drawn up by the Commission on Economic Reform call first of all for an immediate monitoring of the excessively overgrown program of production investments. This severe, down-to-earth check will undoubtedly bring about a great reduction in investment tasks in the near future. The commission is calling for the check on investment installations to review their absolute usefulness to the industrial potential which already exists. An objective review as possible should also be made of the possibilities for supplying the new plants with raw materials, partly finished products, electric power, and fuels. Previously these matters were treated very half-heartedly, a factor which meant agreeing ahead of time to the growing import-intensiveness of Polish industrial economics. The question of interplant and interbranch coproduction ties was treated in similar fashion. Often no care was exercised in locating investment installations, and ecological requirements and the question of cooperation with other plants and complexes were not taken very seriously. As the result the distance that supplies of materials and partly finished products had to be transported to the installations increased, and transport costs rose senselessly.

A drive to examine investment tasks will be conducted concerning these matters. The draft of the basic targets of the economic reform shows strongly the need to associate them closely with social goals. The mobilization of a given installation should conform to the general criteria of the party's and the government's socioeconomic policy. The extent of the urgency of the needs which a given investment is to meet should be decisive. Therefore the program is to see priority really is assigned to investments which will help to develop the food complex and the promotion of export. Priority will also be given to investment installations which feature great production effectiveness. The order in which they are carried out will depend on the conditions for restoring the economic balance which has been so greatly disturbed.

There will also be changes in imports, because the importation of investment goods will be greatly curtailed, while the imports of raw materials and other materials to supply industry will be increased. We also expect to allocate for the purchase of commodities to meet the needs of the domestic market part of the foreign-exchange currency saved on investment imports. Another thing we want from the foreign trade machinery is the examination of the possibilities of exporting that machinery and investment equipment which will not be needed in the execution of the restricted program of industrial investments.

The draft of the economic reform assumes that a stable, moderate rate of investment during the current five-year period will be defined. The index portraying the extent to which the national economy is burdened with investments will decline during the latter years from 27 percent to over 19 percent. Great significance is attached to modernization investments, which have been clearly neglected during the past period, despite verbal assurances that they have priority. The reorganization and improvement of the repair services to effectively



prevent the progressive decapitalization of national fixed assets are a separate issue, and should be treated as such. Socialized enterprises which are running properly will receive the authority to carry out their own investments out of the funds accumulated under the auspices of the development fund.

#### Obligation to Operate Efficiently

It will be possible to put investment matters completely in order only if all the ministries and institutions involved actually cooperate. Therefore, we should definitively get rid of the bad practice of particular interests and the arbitrary, voluntaristic shaping of many investment programs. In the past the method called hooking on to the plan, and openly referred to as such, was used. Such moves by investors had nothing to do with the desired efficiency, after all. They helped only to force the construction of installations which could wait much longer for their turn. Often after all such methods were used for small group interests. Today more than one of these decisions is being questioned by party and state control groups.

We can say without exaggeration that in investment policy and in the daily practice of investing, it is necessary to adhere to strict discipline. There are numerous causes for its fatal relaxation. Investment cycles have been tremendously drawn out. In 1980 97 percent of the plan for investment outlays was executed, but the real plan for completing installations and turning them over for use showed a 60-percent deviation from the initial targets. The installations which were programmed for last year but not completed had a cost-estimate value on the order of 260 billion zlotys. This represents more than 30 percent of the total amount stemming from the extension of investments beyond all measure.

The plan for housing construction, which was reduced at the very outset, was fulfilled only 60 percent. This means that last year there was a shortage of 80,000 dwellings which people were awaiting so eagerly. But although a very important one, this is only a fragment of the anarchy on the investment front. It will be one of the goals of the economic reform to consolidate the machinery for programming and executing investments, because without rational organization of investment work, other sectors of the national economy will suffer.

Even at the stage of minor reform, there are plans in this aspect to shift investment machinery and equipment to those plants in which they can be included in production processes. Later there will be decisions on the relocation of whole installations. They will be shifted to complexes which have the best conditions for joining them in the production cycle. These measures are complicated in nature. They require coordinated actions between ministries and the introduction of incentive to encourage proper use of investment goods not being used.

The new directions of investment policy must be viewed against the backdrop of the complex economic reform. The success of this rational program will undoubtedly mean leading the country out of the stage of economic crisis and social disintegration. It is therefore not surprising that the basic targets of the economic reform have assigned places of honor to the problems of upgrading the investment mechanism. The execution of these changes will be an important contribution to the renewal of social and economic life.

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